

Ex-840

DOC. 9030

PREPARED STATEMENT

of

MR. J. G. LIEBERT

SUBJECT: GENERAL PRODUCTION & FINANCIAL
PREPARATIONS FOR WAR

International Prosecution Section

3 October 1946

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1. Preparation for war is disclosed in great measure by direct examination of the trends of raw material supply and industrial production. Enormous amounts of equipments of various sorts are necessary to the conduct of modern warfare. These equipments, in many cases, differ radically from those normally used in peace time economy. In other cases, the equipments are the same but the amounts and proportions are different. Hence to disclose preparation for war one must examine the end products of industrial activity subjectively and proportionately, as well as the flow of raw materials which are used, either immediately or potentially, in the manufacture of war products and equipments. Responsibility for directing the flow and expansion of production of raw materials and for establishing specialized industrial production for war preparation is best shown in the methods by which such objectives are achieved.

2. The Outline of the Five-Year Plan for Production of War Materials prepared by the War Office, dated June 23, 1937 (IPS Document 9002 A) is a plan for achieving a war-time supply of principal war materials. Its purpose is to provide stimulation and control of industries to secure the specific end products which are vital to military effort. I will read the Preface, page 1, of that Document. To make possible the achievement of this basic Plan for production of the end products many supporting plans were made by the government. Three of these basic plans are

contained in the document entitled "Particulars in Framing a Program for Extension of Important Industries" (IPS Document 1522). The relationship of these three plans to war production is clear from the plans themselves. I will read the following excerpts from IPS Document 1522 to fix this relationship:

- a) Pages 1, 2 and 3 of Part I
- b) Page 1 of Part II
- c) Page 1 of Part III

3. The trends of material and industrial production and methods of government control during the years immediately preceding December 1941 will be discussed specifically in several short surveys of selected industries. One must bear in mind, however, the inter-relationship of industries and the consequent necessity for visualizing the industrial field as a whole to show the pattern of the general trend of production in preparation for war as reflected in the separate surveys.

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ELECTRIC POWER INDUSTRY

4. The importance of the utilization of electric power in the development of certain industries cannot be over-emphasized. The electric power industry was one of the first Japanese industries to be nationalized and, as such, was one of the original pillars in the "new structure" in support of total war. Prior to 1938, the electric power industry was operated by a large number of companies each of which served a particular area and usually combined in itself the functions of generation, transmission and distribution. However, in addition to these, many factories maintained their own private power plants within their compounds.

5. The Outline of the Plan for the Expansion of Productive Power of the Board of Planning (Part III of IPS Document 1522) aimed at an increase in the production of electric power by hydroplants of 2,693,700 k.w. for the four year period. This is approximately a 50% expansion. The Plan also aimed to increase production of electric power from coal by 1,000,000 k.w. This represents an approximate expansion of 35% for the same four year period. When one considers the enormous amount of capitalization and equipments necessary to produce this kind of an increase in power generation within such a short period one is aware of the enormous importance of electric power in the planned expansion of industries.

6. In furtherance of the plans for the expansion of industry the first step towards organizing the power industry on a completely totalitarian basis was taken in March, 1938 with the promulgation of the Electric Power Control Law. By

means of this Law and subsequent enacting Ordinance, a national policy company called the "Japan Electric Generation and Transmission Company" was organized. All utility companies designated by the Communications Minister, who was in charge of power production, were required to turn over all of their hydro-electric plants to this new company in return for stock. This excepted many of the small factory plants. All plants, however, for the development of hydro-electric power and of transmission facilities were taken over by the Company in 1941.

7. The Japan Electric Generation and Transmission Company was established in order to harness Japan's electric power resources to the war machine by means of a planned rationalization of equipment and operating practice. In its preamble the Five-Year Electric Power Plan outlined the principal objectives of the Company as follows:

- (1) To increase the electric power resources of Japan and develop them along lines aimed at meeting military requirements.
- (2) To coordinate the operation of the power networks so as to use the existing facilities most efficiently.
- (3) To promote the construction and operation of larger and more efficient power plants and to repair the less efficient plants
- (4) To economize on materials used in the construction of power installations.

The Japan Electric Generation and Transmission Company was directed and controlled by the government. Created by special law, it was ordered to take over existing facilities and was directed in its entire operation by the national policy in furtherance of war plans. The government guaranteed the principal and interest of all debentures issued up to three times the capitalization of the Company. Its stock was made eligible for hypothecation by the Bank of Japan. The Company was exempted from local taxation and was accorded many other indirect and direct subsidies. In addition to all of this, a dividend of four percent on stock was guaranteed by the government for a period of ten years. In September, 1941 the total capital operated by this Company amounted to 1,376,645,000 yen.

8. To make sure that electric power was not used for non-essential purposes the Electric Distribution Control Law was promulgated August 29, 1941. As a result of this legislation, nationalization was extended to the electric distribution field. There were established in each of the nine Electric Distribution Regions, a special company having general organization lines similar to the Japan Electric Generation and Transmission Company. These distribution companies actually allocated the use of electric power in accordance with government direction.

9. There were other national policy companies under the control of the Japanese Government directly having as part of their functions the production and control of electric power and electric power facilities in those areas wherein they operated. Special reference is made to the South

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Manchuria Railway, Manchurian Heavy Industry Development Corporation, The Taiwan Electric Co. or the latter Company, the North China Development Company and the Central China Development Company. The emphasis on the universal expansion of electric power under direct governmental control at an early date indicates the methodical way by which Japan achieved control over production industries.

10. The degree of expansion of electric power production and the direction of flow of electric power within Japan Proper as a result of the government policy is shown on the following table marked "Electric Power Consumption by Industries in Japan Proper".

ELECTRIC POWER CONSUMPTION BY INDUSTRIES IN
JAPAN PROPER 1931-1941

Year	(Billion KWE)						
	Basic War and War Supporting Industries			Chiefly Non-War Industries			
	Heavy Industries		Total	Light Industries		Other Industries	Electric Total light & household appliances
	Mining	Mfg Industries		Mfg Industries			
1931	1,112	4,042	5,154	2,707	2,055	2,815	7,577
1932	1,281	4,850	6,131	2,782	2,125	2,800	7,707
1933	1,504	5,693	7,197	3,212	2,197	2,610	8,019
1934	1,935	6,504	8,439	3,672	2,294	2,680	8,646
1935	2,100	8,061	10,161	3,998	2,434	2,800	9,232
1936	2,346	9,039	11,385	4,296	2,584	2,830	9,710
1937	2,450	10,641	13,091	4,781	2,678	2,950	10,309
1938	2,656	13,531	16,187	4,616	2,810	3,000	10,426
1939	3,301	14,327	17,628	4,860	2,870	3,000	10,730
1940	3,571	14,809	18,380	4,188	3,108	2,900	10,196
1941	3,765	16,863	20,628	3,562	4,385	2,850	9,795

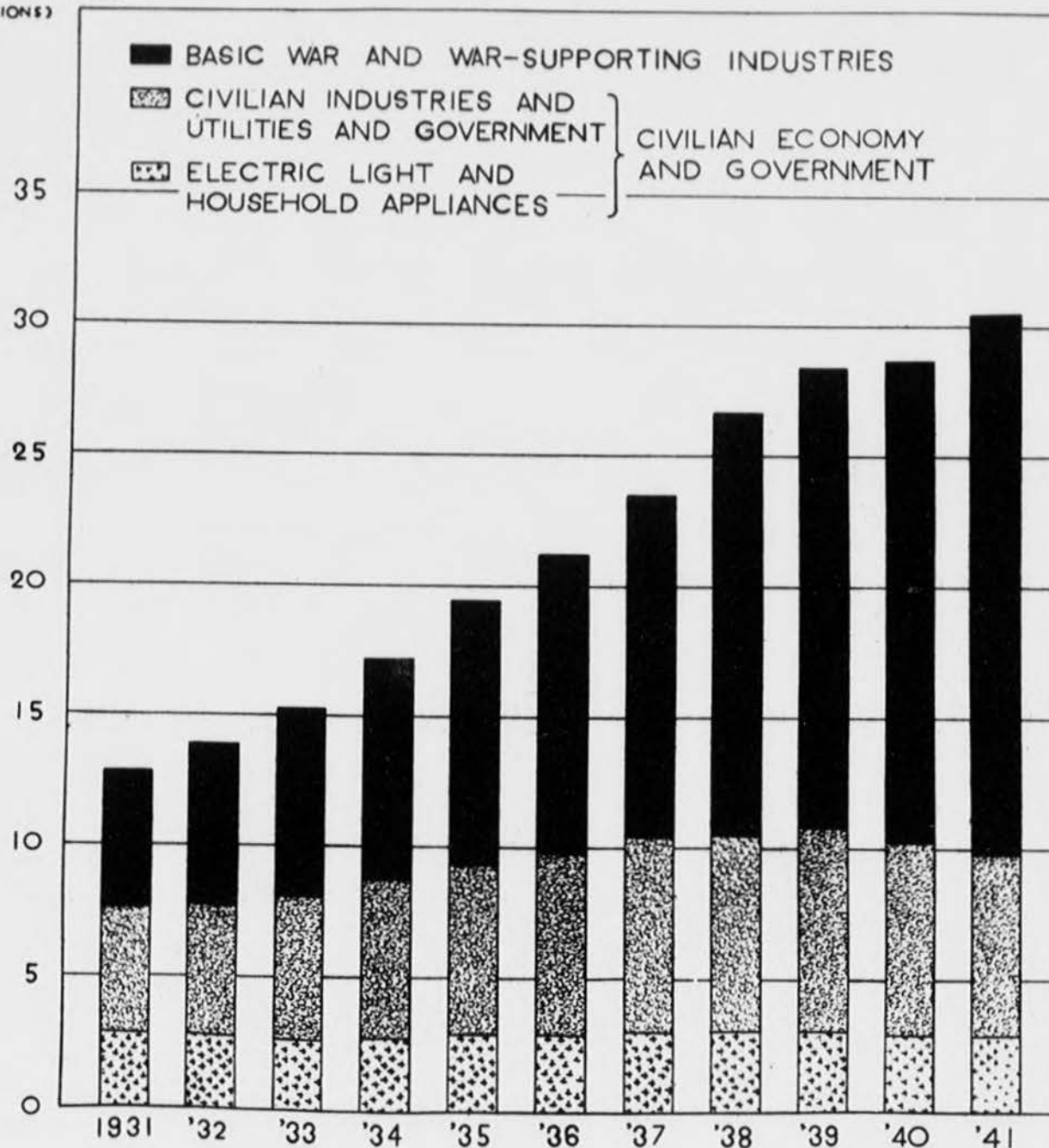
Source: Ministry of Commerce and Industry, Bureau of Electric Power.

It can readily be seen that the purpose of expansion in the production of electric power was to advance the heavy industries in support of war preparation. For graphic illustration there is attached a chart marked "Electric Power Consumption in Japan Proper" drawn from the data contained in the above table.

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ELECTRIC POWER CONSUMPTION IN JAPAN PROPER, 1931-1941

KILOWATT HOURS
(BILLIONS)



SOURCE : MINISTRY OF COMMERCE & INDUSTRY

PETROLEUM INDUSTRY

11. Petroleum is a commodity vital to the conduct of modern warfare as well as to certain industries. Japan is by no means self-sufficient in indigenous petroleum. As a matter of fact, the Japanese production of petroleum is almost negligible in proportion to her normal needs, that is to say about 10 per cent. As a consequence of this deficiency in petroleum production the supplying of petroleum for war purposes depended upon four factors (1) The storing of sufficient petroleum to last a reasonable length of time, (2) Stimulating the indigenous production of petroleum, (3) Production and use of synthetic petroleum, (4) Restriction of civilian and non-essential use of petroleum.

12. In 1934 the Diet passed the Petroleum Control Law making it obligatory on oil companies, both foreign and national, to maintain a perpetual reserve of six months supply of oil in addition to the reserve normally needed for carrying on business, or the equivalent of nine months stock based on the petroleum requirements for any one year. The obvious purpose of such a measure was to increase the national stockpile of petroleum for use in the event of national emergency or failure of the normal imports. One of the provisions of the Petroleum Control Law enabled the initiation of a definite program for self-sufficiency in refining. Under this program Japanese Refineries with charging capacities of over 100,000 tons per year were to provide for or expand the cracking capacity to 25 per cent of crude capacity within 10 years.

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Subsequently, quantity and quality of imports were regulated by the government. The size of refineries and other equipments were controlled. Price regulations were made effective by which all companies were forced to agree to sell to the government upon demand at market prices. Additional regulations relating to obligatory storage were enacted and provisions were made for the payment of storage subsidies.

14. To carry out regulations for the distribution of petroleum the Petroleum Distributing Company was established as a central control organization for the distribution of petroleum products, placing distribution in the hands of one authorized company for each of the 47 prefectures.

15. From 1934 to 1941, the total daily capacity of oil refineries was almost quadrupled. Inasmuch as Japan's own production is confined almost completely to the west coast refineries were built on the Pacific Coast to be more accessible to the imports of crude, with particular emphasis on crude imports from the East Indies. By 1941 the highly strategic refining plants of the Navy and Army had been built up to a capacity bordering on 10,000,000 barrels a year. It is significant that the plants were dispersed to out of way points.

16. Large Japanese Companies from 1937 on made every effort to acquire as much equipment and knowledge concerning the manufacture of aviation gasoline and high grade lubricants as possible. Many reorganizations and amalgamations took place after 1937 to improve the financial and operating structure of the old line oil companies. These new amalgated companies attempted the manufacture of high grade octane aviation gasoline by establishing new plants

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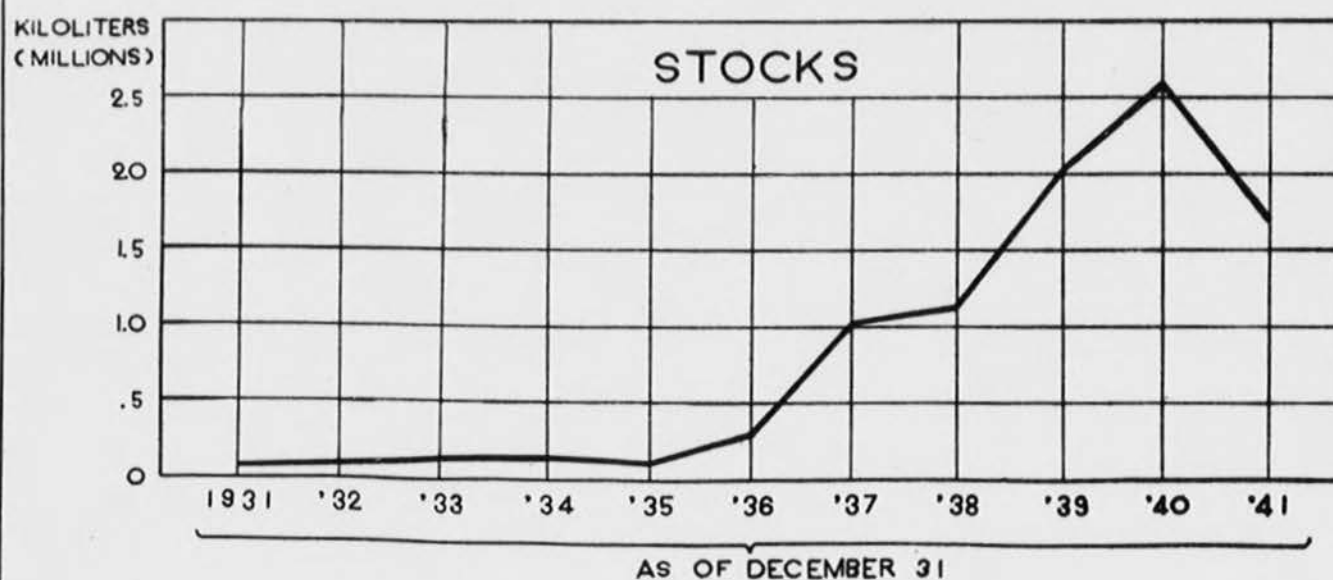
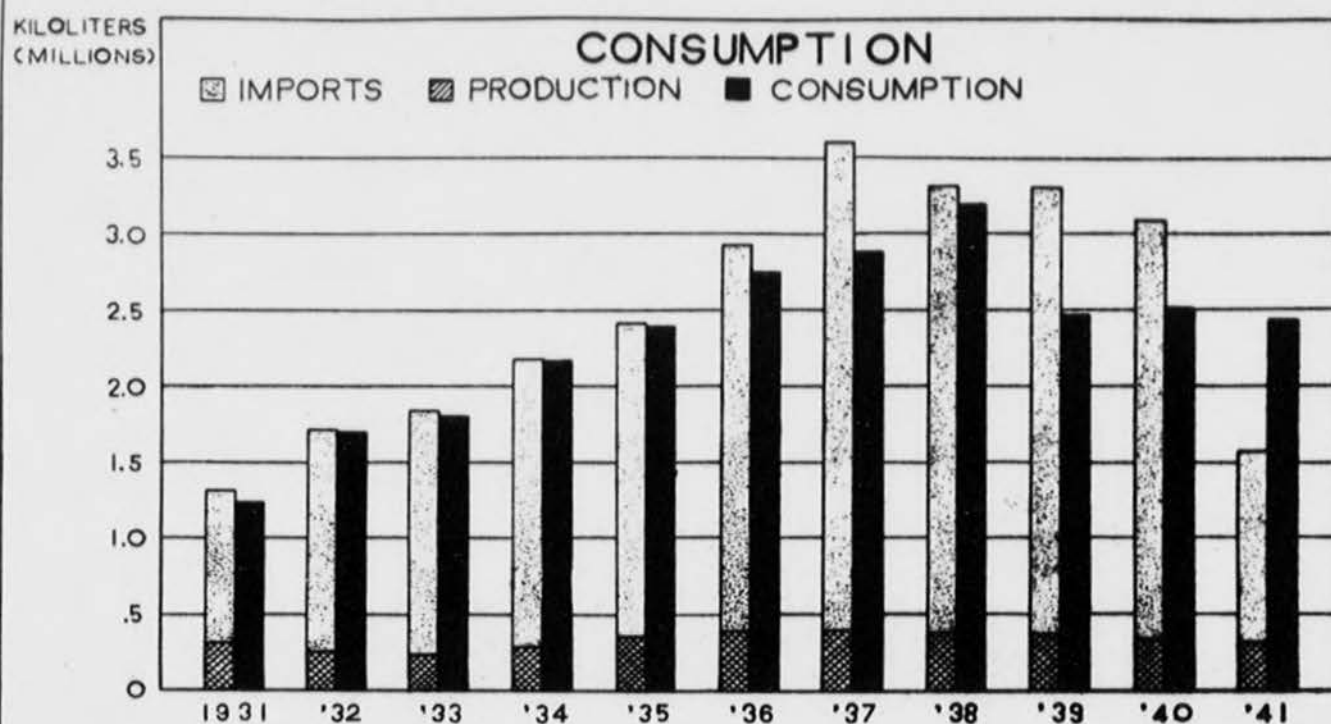
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and importing tremendous quantities of tetra-ethyl lead needed for stepping up the octane content of aviation gasoline. Certain of their production plans, however, were blocked when the United States, in September of 1940, prohibited the export of plans, designs and information that could be used in the production of high grade aviation gasoline.

17. Japan was one of the first countries to build fast tankers with a speed of 17 knots or more compared with the usual 10 or 12 knots. Between 1937 and 1939, Japan's tanker fleet, excluding naval tankers, increased from 220,000 tons to about 440,000 tons and in 1941 it was well in excess of 500,000 tons. These additions to the fleet are significant in that they constitute necessary preparations to secure the speedy importation of petroleum to be manufactured in the newly established refineries-eminently serviceable in case of national emergency.

18. The following table and chart marked "Crude Oil Consumption and Stocks in Japan Proper" shows the ever increasing imports of petroleum and the growing stockpile prior to the war. It is noted that the oil embargo of the United States in 1940 cut deeply into Japan's reserve stocks.

CRUDE OIL CONSUMPTION AND STOCKS IN JAPAN PROPER, 1931-1941



SOURCE : MINISTRY OF COMMERCE & INDUSTRY

CRUDE OIL CONSUMPTION AND STOCKS IN JAPAN PROPER

(Thousand, litres)

YEAR	NEW SUPPLY		TOTAL	CONSUMPTION	STOCKS END OF YEAR
	PRODUCTION	IMPORTS			
1931	306	1016	1322	1239	83
1932	253	1452	1706	1700	88
1933	226	1618	1844	1800	133
1934	284	1900	2184	2174	143
1935	352	2040	2392	2422	112
1936	391	2543	2934	2750	296
1937	393	3216	3609	2890	1015
1938	392	2925	3318	3200	1133
1939	371	2996	3366	2470	2029
1940	335	3752	3086	2524	2591
1941	317	1254	1570	2440	1721

19. Through economic sanction in 1940 Japan tried to force The Netherlands to provide 22,990,000 barrels of oil and oil products. This included one million tons for making aviation gasoline, 400,000 tons of aviation gasoline itself, or roughly three times the normal consumption even under an intensive airplane training schedule. This method, however, did not meet with much success.

20. To attempt a degree of self-sufficiency in petroleum and petroleum products production the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1522) provides that production of gasoline for aircrafts should be increased approximately 630 per cent in the four years between 1938 and 1941; that production of artificial gasoline for motorcars should be increased approximately 2900 per cent; that natural heavy oil production should be increased approximately 30 per cent; that artificial heavy oil production should be increased approximately 900 per cent; and that lubricating oil for aircrafts should be initiated to achieve a production of 20,000 kilo litres. It is noted that great emphasis is placed on the artificial petroleum industry.

21. For the development of indigenous production the Oil Resources Exploitation Law was passed March 28, 1938 (Law No. 31). It was provided that those who had mining rights for the drilling of oil must make a plan to be submitted to the government for the development of such rights and that the government could provide subsidies to oil producers for trial diggings. In addition, the government was empowered

to give orders to increase production and develop oil fields. By the Regulations for Enforcing the Oil Resources Exploitation Law (Commerce and Industry Ordinance No. 772, dated July 30, 1938), it was necessary for the owners of oil rights to make reports to the government concerning the progress of oil exploitation. Standard rates of subsidies for drilling were set up and subsidies were provided for the purchase of machinery, fittings, motors, pumps and accessories for drilling. The following table indicates the amount of increased subsidies paid by the Ministry of Commerce and Industry alone as a bounty for oil prospecting:

1935	132,045 Yen
1936	342,691 Yen
1937	425,105 Yen
1938	903,113 Yen
1939	3,560,616 Yen
1940	6,891,704 Yen
1941	6,124,676 Yen

22. Every effort was made by the Japanese government to develop oil interests in Northern Saghalien. An indication of the emphasis placed upon the securing of oil rights in Saghalien is shown in the following subsidies paid by the Ministry of Commerce and Industry for the securing of oil rights:

1939	6,148,000 Yen
1940	7,680,000 Yen
1941	3,206,000 Yen

23. The Imperial Oil Company Law of March 15, 1941 (Law No. 73) established the Imperial Petroleum Company, a national policy company, to survey and develop oil fields and to control the purchase and sale of all petroleum and oil products. The capitalization of this national policy company was 100,000,000 yen, one-half of which was invested by the government. To facilitate its financial operation, the Company was allowed to issue debentures, the interest and principal of which were guaranteed by the government. A dividend of 6 per cent was guaranteed to private stockholders investing in the Imperial Oil Company. The usual provisions of exemptions from business tax, income tax and local taxes were granted so that the Company, a monopoly in fact, was the active government instrument for the purpose of stimulating and controlling the indigenous production of petroleum both at home and abroad.

24. Petroleum shortages presented such a serious problem to the military that it was decided to advance the production of synthetic petroleum using coal as the raw material. In August 1937, the Diet passed the Imperial Fuel Development Company Law, which established the Imperial Fuel Enterprise Company for the purpose of developing and financing the artificial petroleum industry. This Company was a national policy company and had an original capitalization of 100,000,000 yen. Hand in hand with the Imperial Fuel Development Company Law was the Synthetic Oil Industry Law which provided for a system of licensing, tax exemption and subsidies, together with government control and guidance of the new industry. Bounties paid by the Ministry of Commerce and Industry for the production of synthetic oil were as follows:

1939	290,720 Yen
1940	386,059 Yen
1941	804,361 Yen

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Grants for the dividend of the Imperial Fuel Enterprise Company paid by the Ministry of Commerce and Industry were:

1938	148,094 Yen
1939	378,387 Yen
1940	1,938,000 Yen
1941	2,624,057 Yen

As a result of these forcing laws, and the special emphasis placed upon the new industry by the government, synthetic petroleum production increased from 3,571,200 barrels in 1939 to 5,066,600 barrels in 1941. The proportionate rate of increase was from 2.73 per cent of total indigenous production in 1938 to 24.31 per cent in 1941.

25. The South Manchurian Railway Company attempted to and did develop the production of petroleum in Manchuria from shale oil. Their plans in 1939 called for the production of 7,000,000 barrels of synthetic petroleum by 1943. Inasmuch as the production of petroleum in Manchuria was instituted for the purpose of supplying that area, the effect of such production was not felt in Japan proper since only negligible quantities were imported into Japan proper.

26. Because the great portion of synthetic petroleum was developed directly at government expense, and since the production was bought up for government use, there is no exact data available concerning the relative cost of synthetic petroleum in Japan to the cost of the imported natural product. Authoritative sources, however, indicate that the production of synthetic petroleum from coal and shale is so costly as to be prohibitive under normal conditions.

27. The conservation of oil and oil products was considered such a strategic problem that the Planning Board gave early

consideration to limiting the amount of petroleum available for civilian use. On March 7, 1938, the Ministry of Commerce and Industry Ordinance No. 8, provided a rationing system for the use of petroleum. It was provided at this time that gasoline for private motorcars should be curtailed by 40 per cent, for taxis, buses and government cars by 30 per cent. Additional regulations provided that certain percentages of alcohol should be mixed with gasoline for motor fuel. The government gave an impetus to the use of substitute fuels for automobiles by the establishment of the Nippon Substitute Fuel Producer Company. This Company was granted a monopoly for the production of apparatus which converted charcoal or woodchips into fuel for automobiles. A subsidy of 300 yen was granted for each automobile equipped with substitute fuel apparatus. The Subsidy Budget of the Ministry of Commerce and Industry for substitute fuel for automobiles is as follows:

1938	1,560,000 Yen
1939	1,720,000 Yen
1940	2,900,000 Yen
1941	3,000,000 Yen

Additional subsidies were paid for propagandizing conservation of petroleum and oil products and the use of substitute materials wherever possible. Other regulations, however, which limited the use of charcoal and coal and normal substitutes made such regulations tantamount to non-use of certain facilities normally requiring oil, because such substitutes even were not readily available. The extent of emphasis on substitute fuel is shown in the attempted development of gasoline from pine tree roots and other such highly uneconomic enterprises.

28. Normally, Japan is a substantial exporter of coal, excepting coking coal which is imported. However, in spite of a plentiful supply of coal, Japan regulated the use of coal for productive purposes in conformity with the national policy and stimulated its production. Following the organization of the Fuel Bureau in June 1937, the Coal Division of that Bureau was charged with the conduct of all matters concerning the distribution and use of coal, together with the regulation of transportation, etc., the development of coal resources and the technique of coal mining. This was done in cooperation with the producers.

29. Industrial planning for war industries necessarily implied an increase in the production of coal for manufacturing. The reflection of this necessity is disclosed in the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1522), which provides that the production of coal should be increased from 58,363,000 kilo tons in 1938 to 78,182,000 kilo tons in 1941. When one considers the nature of coal mining and its already well developed state in 1938, the proposed expansion is proportionately very large. To provide a mechanism for this planned increased production, coal was named as one of the important minerals, the production of which was to be promoted under the provisions of the Act to Promote the Production of Important Minerals of March 29, 1938. The expense of such an increase in production was enormous. To a small degree the cost of increasing production is disclosed in the fact that the Ministry of Commerce and Industry alone paid a bounty of 20,500,000 yen in 1940 and 19,900,000 yen in 1941 for the stimulation of coal production.

30. On August 16, 1939, by decree of the Commerce and Industry Ministry, in accordance with Articles 2 and 3 of the Exports and Imports Temporary Management Law, there was promulgated the Coal Sales Control Regulations. These Regulations provided that coal producers and coal agents could not sell coal without permission of the Ministry of Commerce and Industry, except sales of less than 250 tons per month, or to privileged named distributors of coal who were charged with carrying out the government policy. This method of controlling the flow of coal into industrial production was most effective, because it forced producers of certain industries to manufacture types of products desired, thus achieving specialized production. This was also true of electric power. By virtue of stimulation of coal production and by limiting the use of coal into what was considered non-essential industries, the actual available supply of coal was increased for war industries.

31. Continued expansion of industry, however, necessitated further controls over distribution. To tighten distribution control there was passed the Coal Distribution Control Law, (Law No. 104), April 6, 1940, which provided for the establishment of the Japan Coal Company. This national policy company was created for the purpose of handling and distributing all coal within Japan. The law provided that all producers and importers of coal must sell to the newly created national control company. The Japan Coal Company, an absolute monopoly, was charged with the purchase and sale of all coal, the importation and exportation of all coal, the licensing and investment in coal mining, together with related enterprises and with matters concerning demand, supply and prices. For facilities the Japan Coal Company was empowered to take over

the management of existing facilities belonging to private concerns for the distributing and handling of coal. One can hardly envision a more absolute control over an industry than that exercised by the government upon the establishment of this company in conjunction with related laws.

32. The control of the coal industry and the expansion of it cannot be justified on the basis of sound industrial expansion when one considers that in addition to mining subsidies the government paid in 1941 through the Ministry of Commerce and Industry alone 94,651,216 yen as a grant for adjusting coal prices to other commodities. This money was paid to subsidize submarginal producers and to equalize the price of coal to users by a pooling arrangement.

CHEMICAL INDUSTRY

33. Since chemicals play such an important part in the manufacture of explosives, the processing of materials and the manufacture of equipments vital to the war effort, certain of the chemical industries underwent tremendous expansion during the years immediately preceding 1941. Many chemicals are by-products of other industrial activity so that the securing of raw materials in many cases presented no problem; hence, concerted action for production required only the expansion of facilities. A few of the more important chemicals together with their uses and production expansion are outlined.

ALCOHOL

34. Ethyl alcohol is used for many purposes among the most important of which are beverages, medicines, synthetic rubber, high explosives and propellants, dyestuffs, lacquer, varnishes and antifreeze. The most important use quantitatively, however, is as a fuel. Prior to 1936 Japan produced only about 11.3 per cent of domestic requirements of ethyl alcohol, the remaining 88.7 per cent being imported principally from Formosa and the South Sea Mandated Islands. The normal peacetime consumption of ethyl alcohol has been estimated at about 5,250,000 gallons, which is the 1931 apparent consumption figure. In 1936 the Japanese Government announced a seven year program whereby production in Japan proper would be increased to 39 million gallons a year by 1941. The government subsidized the construction of new plants which enabled a vast expansion to take place.

Although the target was not reached the following production table shows an increase from 1935 to 1941 of over 6000 per cent.

ETHYL ALCOHOL PRODUCTION
(Unit - 1000 Hectolitres)

1935	1.1
1936	1.6
1937	7.1
1938	34.0
1939	44.0
1940	63.0
1941	67.4

35. In 1938 the government decreed that ethyl alcohol should be mixed with gasoline for motor fuel in order to reduce reliance on the importation of gasoline, and to conserve available stocks. The expansion of the alcohol industry was thus planned and conserved to obtain maximum self-sufficiency, regardless of cost, in order to reduce Japan's vulnerability in event of being shut off from the imports of alcohol, gasoline or oil by wartime blockade.

36. Japan started production of synthetic methyl alcohol in 1933. It was previously made in small quantities in Japan by wood distillation, but its production was almost negligible since it could not compete in price with the imported synthetic methanol from the United States and Germany. In order to become independent of foreign sources and to achieve self-sufficiency, the Japanese Government promoted the production of the synthetic methanol which is one of the most important of the war chemicals. Its chief use is in the manufacture of formaldehyde (which is used in explosives), plastics, motor fuels, antifreeze and in de-

Although the target was not reached the following production table shows an increase from 1935 to 1941 of over 6000 per cent.

ETHYL ALCOHOL PRODUCTION
(Unit - 1000 Kilolitres)

1935	1.1
1936	1.6
1937	7.1
1938	34.0
1939	44.0
1940	63.0
1941	67.4

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naturing ethyl alcohol. Methanol is also used directly in the production of explosives and plastics. The following table shows the enormous expansion in this vital chemical during the years immediately preceding the war.

SYNTHETIC METHYL ALCOHOL PRODUCTION
(Unit - Metric Tons)

1932	0
1933	162
1934	2, 785
1935	3, 457
1936	4, 369
1937	6, 626
1938	9, 776
1939	11, 224
1940	12, 788
1941	19, 906

BUTANOL

37. In wartime butanol is invaluable as a raw material in the production of aviation fuels with high octane values. It is also used as a plasticizer and solvent in explosives and plastics. Its major peacetime use is that of a solvent in the cellulose lacquer industry. Prior to the China Incident Japan was almost entirely dependent on imports from the United States for its requirements of butyl alcohol, or butanol. After 1937 Japan pushed plans for self-sufficiency in this industry. As the following production table reveals there was an increase in production of 1,950 per cent between 1936 and 1941:

BUTANOL PRODUCTION
(Unit Metric Tons)

1932	22
1933	49
1934	77
1935	117
1936	87
1937	132
1938	160
1939	289
1940	629
1941	1,784

GLYCERINE

38. Glycerol or glycerine, is another important chemical which is used in the manufacture of explosives, synthetic resins, antifreeze, pharmaceuticals, cellophane, leather and rubber products, and as a solvent and moistening agent. Japan was ordinarily dependent on the imports of glycerine or glycerol to meet requirements. The Japanese government, to become self-sufficient in glycerine production, promoted the expansion of this industry through subsidies. It also promoted the domestic production of raw materials by restricting fat imports. The following table shows the expansion of indigenous glycerol production in the years immediately preceding the war:

GLYCERINE PRODUCTION
(Unit - Metric Tons)

1930	4,963
1931	3,875
1932	6,312
1933	6,281
1934	6,921
1935	8,535
1936	8,342
1937	8,405
1938	10,475
1939	10,387
1940	8,292
1941	7,158

ACETONE

39. Acetone is chiefly used as a solvent in making smokeless powders. It is also used in the making of laccuars, methyl methacrylate resins, and substitute glass. In 1941 over 40 per cent of the acetone production was used in making organic glass for airplanes. The following production table shows an increase of production between 1932, a relatively normal year, and 1941 of over 27,000 per cent.

ACETONE PRODUCTION
(Unit - Metric Tons)

1932	11
1933	26
1934	52
1935	60
1936	258
1937	472
1938	1,734
1939	2,053
1940	2,182
1941	2,972

NITRIC ACID

40. Nitric Acid is an ingredient common to the great majority of important modern warfare explosives. It is used to nitrate a variety of organic materials as follows:

- a. Coal Tar Derivatives including benzene, toluene, picric acid among the high explosives; other coal tar fractions such as naphthalene, cresols and xylene which can also be nitrated into serviceable explosives.
- b. Cellulose and other plant materials to make nitro-cellulose, the basis for all modern military propellants.
- c. Glycerol and related materials to make nitroglycerine used as a component of double base powders and as a compound of dynamite:

- d. Formaldehyde and similar materials with ammonia to yield hexogen, and with acetaldehyde to produce PETN, both important military high explosives not based on coal tar derivatives.

The increase in Nitric Acid production is shown in the table below together with the production and available supply of fixed nitrogen during the years immediately preceding the war.

NITRIC ACID PRODUCTION
Metric Tons 98% Conc.

FIXED NITROGEN PRODUCTION
& IMPORT
Unit Metric Tons of N₂

Production		Production		Imports	Available Supply
1930	4,178	1930	69,900	73,050	142,950
1931	6,401	1931	72,400	63,680	136,080
1932	9,703	1932	114,500	54,800	169,300
1933	14,845	1933	128,000	46,650	174,650
1934	20,781	1934	143,800	56,860	200,660
1935	23,370	1935	198,360	75,000	273,360
1936	30,494	1936	250,930	90,500	341,430
1937	45,593	1937	287,045	57,400	344,445
1938	79,302	1938	316,195	71,600	387,795
1939	85,165	1939	282,015	35,200	317,215
1940	86,242	1940	323,095	74,700	397,795
1941	92,119	1941	355,230	33,300	388,530

DYES

41. The following table concerning the production of dyes is included because the raw materials used in dye production are the same as those used in the manufacture of explosives from coal tar derivatives.

DYES - PRODUCTION
(Unit - Metric Tons)

1930	7,800
1931	9,700
1932	14,000
1933	16,000
1934	17,100
1935	19,400
1936	19,100
1937	21,400
1938	22,900
1939	27,600
1940	23,200
1941	21,800

PLASTICS

42. The Japanese have manufactured all the leading types of plastics for many years but particularly great increases in production were made after 1937 to carry forward the self-sufficiency program. Since the raw materials required to make the type of plastics based on coal tar distillation products were also required to make explosives, efforts were made to develop plastics based on other than coal tar distillation products. The production of acrylic resin began in 1938. It is very superior transparent resin that is used in making shatter-proof glass for airplanes. The cost of producing this plastic is too high for ordinary consumers and the whole production was taken by the military.

43. Vinyl acetate resins and the products thereof are used in the manufacture of synthetic fabrics, for waterproofing fabrics, as adhesives, as a latex substitute, in electric cable coatings, in tank linings and as finish on metals to make them chemically resistant.

44. The tar acid resins, having a large number of useful characteristics and the advantage of low production cost, remained the most important of the plastics that were used although they are derived from coal tar. They are used for making telephone and radio instruments, electrical accessories, protective helmets, valves, building materials, airplane parts, instrument panels and housing, etc. The following tables show the expansion of production of these three chemicals during the years immediately preceding the war:

ACRYLIC RESIN PRODUCTION
Unit-Kilograms

VINYL ACETATE TAR ACID RESINS
RESINS PRODUCTION
Unit-Kilograms

TAR ACID RESINS
PRODUCTION
Unit - Metric
Tons

1932	-	1933	-	1930	300
1933	-	1934	-	1931	50
1934	-	1935	-	1932	700
1935	-	1936	2,000	1933	1,000
1936	-	1937	3,000	1934	1,400
1937	-	1938	21,000	1935	1,500
1938	63,000	1939	38,000	1936	2,000
1939	276,100	1940	31,000	1937	3,500
1940	208,516	1941	28,000	1938	3,600
1941	348,989			1939	4,500
				1940	5,100
				1941	6,100

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ACRYLIC RESIN PRODUCTION
Unit-Kilograms

VINYL ACETATE TAR ACID RESINS
RESINS PRODUCTION PRODUCTION
Unit-Kilograms Unit - Metric
Tons

1932	-	1933	-	1930	300
1933	-	1934	-	1931	500
1934	-	1935	-	1932	700
1935	-	1936	2,000	1933	1,000
1936	-	1937	3,000	1934	1,400
1937	-	1938	21,000	1935	1,500
1938	63,000	1939	38,000	1936	2,000
1939	276,100	1940	31,000	1937	3,500
1940	208,516	1941	28,000	1938	3,600
1941	348,989			1939	4,500
				1940	5,100
				1941	6,100

COKE AND COKE OVEN BY-PRODUCTS

45. Since coke and coke oven by-products are indispensable in manufacturing war equipments and explosives Japan's preparation for war is strikingly apparent upon investigation of the expansion of the coke by-products industry. The most important coke by-products and their industrial uses are shown as follows:

INDUSTRIAL USES OF COKE BY-PRODUCTS

BENZENE

Explosives	Numerous organic chemicals	Rubber Cement
Pharmaceuticals	Polishes	Textile Soaps
Perfumes	Varnishes	Extracting Waxes
Dyestuffs Intermediates	Lacquers	Solvents
Photographic Developers	Artificial Leather	Celluloid & Rubber
Enriching Gas		Synthetic Rubber
		Motor Fuel

TOLUENE

Explosives	Numerous organic chemicals	Saccharin
Dyestuffs Intermediates	Pharmaceuticals	Varnishes
Rubber Cement	Solvent	
Finishes for Leather	Perfumes	
	Solvent for Rubber	

NAPHTHALENE

Explosives	Organic chemicals	Phthalic Acid
Dyestuffs Intermediates	Plastics	Lubricating
Dyestuffs	Artificial leather	Composition
Synthetic resins	Varnishes	Insecticides
Synthetic tannins	Solvents	Binder
Lacquers	Disinfectant	Enriching Gas
Rubber reclaiming		
Wood preservatives		

PHENOL

Explosives	Organic Chemicals	Germicidal Com-
Pharmaceuticals	Disinfectants	position
Dyestuffs	Photographic Developers	Antiseptic
Perfumes	Plastic Compositions	Artificial Tannin
Photograph Records	Development agent in	Synthetic resins
Insulating Materials	dyeing & printing	Paint & Varnish
Synthetic Rubber	textiles	Remover
		Detergents

CRESOLES

Explosives	Paint & Varnish Removers	Pharmaceuticals
Disinfectants	Leather Preservative	
Fluorants	Solvents	
Photographic Developers	Pastes and grinding compounds	
Printing Inks	Softening & reclaiming rubber	
	Synthetic resins	

The following tables show the expansion of the coke oven by-products industries and clearly demonstrate increased war potential.

BENZENE PRODUCTION
(Unit - 1000 Metric Tons)

TOLUENE PRODUCTION & IMPORTS
(Unit - 1000 Metric Tons)

			<u>Production</u>	<u>Imports</u>	<u>Supply</u>
1930	5.0	1930	.5	n.d.	-
1931	6.0	1931	.5	n.d.	-
1932	7.7	1932	.8	.5	1.3
1933	9.9	1933	1.2	1.0	2.2
1934	34.9	1934	1.6	.5	2.1
1935	26.3	1935	2.0	.5	2.5
1936	31.3	1936	2.3	1.0	3.3
1937	33.1	1937	2.8	1.0	3.8
1938	54.9	1938	4.6	3.1	7.7
1939	60.5	1939	5.2	5.2	10.4
1940	76.1	1940	6.1	1.3	7.4
1941	88.1	1941	7.4	.7	8.1

NAPHTHALENE
Metric Tons

PHENOL
Metric Tons

CRESOLS
Metric tons

1930	8277	1104	1930
1931	8760	1168	2070
1932	9765	1302	2275
1933	11745	1566	2740
1934	12060	1608	2810
1935	13509	1800	3150
1936	15894	2119	3710
1937	22770	3036	4300
1938	25302	3373	5850
1939	28347	3780	6620
1940	29558	3874	6780
1941	30462	4062	7100

46. The foregoing illustrations show the rapid advance in the chemical industry and the great number of uses of important chemicals. In time of war, because of these many uses of chemicals it is a simple process to convert the end output of the industry from civilian products to war materials production. It is noted in Appendix I of the "Outline of the Five-Year Plan for the Production of War Materials" (IFS Document 9002) that Chemical Works were expected to be converted to the supplying war materials of many sorts.

47. In addition to subsidies, both direct and indirect, to stimulate chemical production the Synthetic Chemical Industry Law of 1940 was designed to promote the chemical industry as a whole by restricting undue competition. It provided for licensing establishments producing rubber, toluol, benzol, methanol, butanol, ascetic acid, rosin and synthetic fibre. This sort of licensing control allowed the government, as in the cases of other specific industries, to dominate expansion of special chemical production enterprises and by regulation of products of the primary industries concerned, to regulate the amount and kind of the chemical and product.

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SHIPBUILDING INDUSTRY

48. The conduct of war in foreign territory necessarily demands adequate ocean transportation facilities. Support of an army in Manchuria and the need for shipping to bring necessary imports brought about an early expansion of shipbuilding by Japan. In 1932 the Japanese Government made an important decision when, with a view to improving the unfavorable age of Japanese ships and to reduce the frequency of marine casualties, it introduced the first of the "scrap and build" programs. The first program which took effect October 1, 1932, provided for the construction of 200,000 gross tons of new shipping on condition that two tons of vessels of 25 years or over were scrapped for each ton of new vessel built under subsidy. Each new vessel had to be 4,000 gross tons or over, capable of at least 13½ knots of speed and built in a Japanese shipyard. Under this scheme approximately 200,000 gross tons, amounting to 31 new vessels, were built with a total Government subsidy of nearly 11,000,000 yen. The second and third "scrap and build" programs which took effect in 1935 and 1936, respectively, produced a combined result of the construction of 100,000 new gross tons with a subsidy of little more than half that under the first program. The vessels built under these second and third programs had gross tonnages of 4,000 or over and were capable of at least 15 knots of speed. Thus, between the years 1932 and 1937 there were built approximately 48 fast, new and large cargo ships of approximately 300,000 gross tons giving Japan more tonnage less than five years old in proportion to her total tonnage than any other nation in the world. A fourth production program came into operation in April, 1937 providing for the subsidized construction of superior passenger and passenger-cargo liners of not less than 6,000 gross tons of

19 knots of speed. The subsidy rate for this building program was in some cases one-half the building cost.

49. Other indirect assistance to shipbuilding was given by the Iron Manufacturing Industry Law Enforcement Ordinance No. 507, of September 20, 1937, which provided subsidies for iron manufacturers who gave special consideration to the manufacture of steel plates, tubes and pipes, wire and rod including turbine blades, etc., all of which were essential to the expanding shipbuilding program.

50. The Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1522) demands an expansion of ships from 402,000 gross tons in 1938 to 650,000 gross tons by end of 1941 or roughly an expansion of one-third. Because the program did not move forward quickly enough, the Shipbuilding Industry Law (Law No. 71) was promulgated April 5, 1939. The purpose of the Shipbuilding Industry Law was to sanction and provide subsidy and loss indemnification to encourage shipbuilding. Basically, the law operated to allow the Imperial Government to make contracts with banking organizations that provided funds for shipbuilding or for buying ships, and to indemnify the loss they might incur by accommodation of the funds. By the same law the Government was authorized to issue public loans to the necessary limit and to pay the indemnity in bonds. The shipbuilding industry was brought under strict government supervision by a system of licensing production. Further, the establishment of new enterprises, amalgamation and cessation of work of the shipbuilding companies was made subject to government permission. When it was deemed necessary in the public interest, the Government was em-

powered to order the installation, enlargement and improvement of equipment, together with the repair of vessels, engines and equipment. For this supervision the shipbuilders were given the right of eminent domain, allowed to issue debentures up to twice the amount of the paid-up capital, were granted direct subsidies and indemnified for any losses incurred in the execution of the Government orders.

51. By a series of regulations the Government standardized types of cargo vessels and in general systematized the control of the industry. Direct participation in the equipping of the shipbuilding industry by the Government for war purposes was further provided for by the Industrial Equipment Corporation established by legislation in November 1941. One of the prime purposes of this corporation, details of which will be cited later, was to equip shipyards and build ships. Thus by December, 1941 the shipbuilding industry of Japan had for several years been rigidly controlled.

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IRON MANUFACTURING INDUSTRY

52. Japan has always been deficient in the indigenous production of iron for the development of heavy industries and industrial purposes generally. Ever since the turn of the century the iron industry has been subsidized because of the high cost of production. However, it was not until the passage of the Japan Iron Manufacturing Company Law, April 6, 1933 (Law No. 47), that the government directly took a leading part in the iron industry as an operator. The aforementioned Law established the Japan Iron Manufacturing Company, a national policy company, for the development of the iron manufacturing industry and the sale of iron and steel. This Company, controlled, directed and financed by the government subsequently became the largest producer of iron in Japan and the hub of the iron industry.

53. With the commencement of activities of the Planning Board further special attention was given to stimulating and controlling iron and steel production. On August 12, 1937 (Law No. 62), the Iron Manufacturing Industrial Law was passed to develop iron manufacturing industries of Japan and to strengthen national defense. This Law provided that persons wishing to inaugurate iron manufacturing enterprises or suspend or alter facilities must first obtain permission of the government. Those who developed iron manufacturing enterprises under this law were entitled to expropriate land under the Land Expropriation Law if their annual capacity was over 100,000 tons. Likewise, other privileges were extended to those willing to engage in iron manufacturing, such as exemptions from income and business property taxes and exemption from import duty on machinery, equipments

and materials necessary to the industry. Special tax exemptions were given to those manufacturers who commenced the production of pig iron from iron sand and iron ore. This practice is exceedingly uneconomical because iron sand is very low grade ore and can be smelted into pig iron only at high production cost. Under certain conditions the government was empowered to grant other subsidies for the development of the iron industry. The subsidies paid by the Ministry of Commerce and Industry alone as a bounty for iron production were as follows:

1935	1,799,966 Yen
1936	1,400,361 Yen
1937	1,941,539 Yen
1938	3,865,407 Yen
1939	2,005,791 Yen
1940	4,050,017 Yen
1941	1,894,050 Yen

This bounty was in addition to other subsidies. In the subsequent Iron Manufacturing Industries Laws Enforcement Ordinance, Imperial Ordinance No. 507, dated September 20, 1937, there were set out special rates of subsidies for:

- (1) Steel ingot and steel billet for forging.
- (2) Wire and rod, including turbine plates.
- (3) Steel plates.
- (4) Tube and pipe.

These materials are all used in the building and repair of steel ships.

54. For all these privileges and subsidies the government, under the Iron Manufacturing Industrial Law was empowered to direct iron manufacturers on matters of sale prices, terms of sale, expansion and improvement of facilities, changes in operating methods and such other actions as were necessary to control the kind and direction of iron manufacturing enterprises. As was the case in many other industries, the mechanism for control of iron manufacturing was the cartel, or control association system by which substantial producers of iron were allowed to effect understandings among themselves under the control, guidance and approval of the government. Peculiar to the iron industry, however, is the fact that the controlling influence in the association was always the government controlled Japan Iron Manufacturing Company which acted as a private corporation.

The Act to Promote the Production of Important Minerals, Act No. 35, March 29, 1933, specified iron as one of the important minerals. Under this Law the government could order all owners of mining rights to commence mining operations or sell their mining rights to those who would do so. Such artificial stimulation of production, with no relation to production costs, brought many submarginal producers into the field. But even with all the forces of special legislation to promote indigenous production, Japan continued to import enormous quantities of not only pig iron but also iron ore.

55. Scrap iron is an important material in the production of finished steel. Enormous quantities of scrap iron were imported and efforts were made to collect and conserve local scrap. On November 21, 1938, a decree of the Commerce and Industry Ministry set up the Scrap Iron Distribution Control Regulations relating to collection and use of scrap iron and steel. To facilitate the handling of scrap iron and raw materials there was inaugurated a special control company which had the monopoly over such distribution and sale. The actions of this control company were directed by the government.

56. The Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1522) indicates the emphasis placed on increasing indigenous production of iron and steel in conformity with the national policy. The schedules of planned increase are as follows:

	1938	1939	1940	1941
Steel Material				
Ordinary Steel	4,615,000	5,630,000	6,280,000	7,260,000
Special Steel,				
pig, cast steel	520,000	670,000	820,000	1,000,000
Steel Ingots	6,310,000	7,753,000	8,799,000	9,950,000
Pig Iron	3,300,000	4,000,000	5,293,000	6,362,000
Iron Ore	2,250,000	3,200,000	4,400,000	5,700,000

57. Many additional regulations controlling the use of iron and iron products were promulgated. It is interesting to note that there were certain favored industries into which iron was channelled as a basic material. For instance,

under the Cast Iron Manufacturing Facilities Restricting Regulation of September 23, 1939, Commerce and Industry Department Regulation No. 55, it is provided that:

"persons planning to establish or expand or alter (only in case of capacity increase), cast iron manufacturing facilities must obtain permission from the Minister of Commerce and Industry. But exceptions are provided in the following cases:

- '(1) Establishment, expansion or alteration of cast iron manufacturing facilities by a company which is established by a special ordinance or by approval, permission, or license of an administrative office of the government ***.
- '(2) Establishment, expansion or alteration of cast iron manufacturing facilities used for industries, permitted by the Automobile Manufacturing Industrial Law, the Machine Tool Manufacturing Industry Law, the Aircraft Manufacturing Industry Law and the Shipbuilding Industry Law ***'".

The integration of the various production stimuli for the purpose of advancing special wartime production as desired is obvious.

58. In addition to the emphasis placed upon indigenous production of iron, so essential to wartime economy, the government did not stop the importation of iron ore, scrap and manufactured iron. The various plans of the Planning Board always place great stress on the securing of the natural deficiencies of these products. That the iron and steel industry, by virtue of the various governmental actions, underwent an enormous expansion is indicated in the following tables marked -

TABLE A. Production and Imports of Iron Ore, Japan Proper

TABLE B. Production and Imports of Pig Iron, Japan Proper

TABLE C. Production and Imports of Steel Scrap, Japan Proper

TABLE D. Production and Imports of Finished Steel, Japan
Proper

and in the attached chart marked "Steel Production and Imports
in Japan Proper", which is a graphic reproduction of the Tables

TABLE (A)

PRODUCTION AND IMPORTS OF IRON ORE, JAPAN PROPER
1926 - 1941

Year	(Thousand Metric Tons)			
	Production in Japan	Imports from Korea and Manchuria	Imports from other countries	Total Supply
1926	130	99	794	1,023
1927	160	169	938	1,267
1928	158	225	1,618	2,001
1929	170	314	1,945	2,438
1930	246	288	1,974	2,508
1931	208	177	1,550	1,935
1932	227	158	1,476	1,861
1933	320	253	1,524	2,099
1934	432	184	2,128	2,744
1935	516	243	3,404	4,163
1936	619	243	3,780	4,642
1937	584	304	3,009	3,897
1938	766	340	2,842	3,978
1939	850	413	4,536	5,799
1940	993	486	4,643	6,122
1941	1,334	812	4,246	6,392

TABLE (B)

PRODUCTION AND IMPORTS OF PIG IRON, JAPAN PROPER

1926 - 1941

(Thousand Metric Tons)

YEAR	Production in Japan	Imports from Korea & Manchuria	Other Imports	Total Supply
1926	810	105	400	1,315
1927	896	103	473	1,472
1928	1,093	140	570	1,803
1929	1,087	138	654	1,879
1930	1,162	109	405	1,676
1931	919	95	399	1,413
1932	1,010	528	122	1,660
1933	1,437	615	185	2,237
1934	1,728	573	204	2,505
1935	1,906	514	579	2,999
1936	2,007	394	701	3,102
1937	2,309	348	783	3,440
1938	2,562	425	647	3,634
1939	3,231	573	354	4,158
1940	3,486	595	259	4,340
1941	4,233	691	93	5,017

TABLE (C)

PRODUCTION AND IMPORTS OF STEEL SCRAP, JAPAN PROPER

1926 - 1941

(Thousand Metric Tons)

YEAR	Domestic Supply	Imports from Manchuria	Other Imports	Total Supply	Consumption for Steel Making
1926	707	-	80	787	619
1927	755	0	224	979	818
1928	866	0	363	1,229	1,019
1929	993	0	487	1,480	1,182
1930	992	0	488	1,480	1,188
1931	847	0	295	1,142	1,056
1932	1,096	2	557	1,655	1,242
1933	1,460	6	1,006	2,472	1,836
1934	1,754	5	1,407	3,166	2,426
1935	2,058	4	1,688	3,750	2,981
1936	2,367	19	1,478	3,864	3,215
1937	2,911	20	2,399	5,330	4,085
1938	3,037	25	1,332	4,394	4,142
1939	3,279	1	2,554	5,834	4,542
1940	3,282	0	1,390	4,672	4,189
1941	3,430	4	199	3,633	3,418

TABLE 100

PRODUCTION AND IMPORTS OF FINISHED STEEL, JAPAN PROPER

1926 - 1941

(Thousand Metric Tons)

YEAR	Production in Japan	Imports	Total Supply
1926	1,507	34	1,541
1927	1,686	88	1,774
1928	1,906	90	1,996
1929	2,294	166	2,460
1930	2,290	70	2,360
1931	1,883	26	1,909
1932	2,398	26	2,424
1933	3,198	105	3,303
1934	3,843	89	3,932
1935	4,704	274	4,978
1936	5,222	242	5,464
1937	5,801	434	6,235
1938	6,472	300	6,772
1939	6,696	214	6,910
1940	6,855	291	7,146
1941	6,844	152	6,996

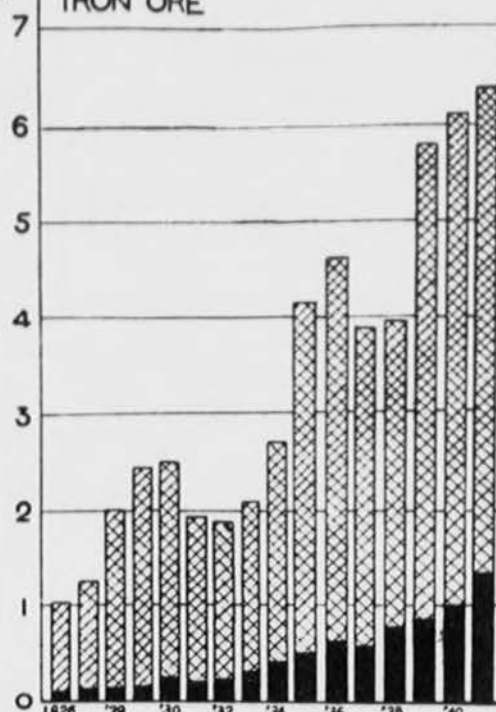
STEEL PRODUCTION AND IMPORTS IN JAPAN PROPER, 1926-1941

■ PRODUCTION

▨ IMPORTS

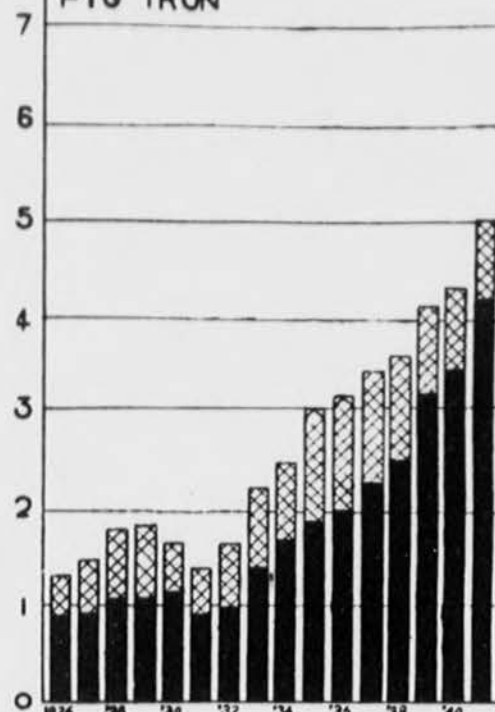
METRIC TONS
(MILLIONS)

IRON ORE



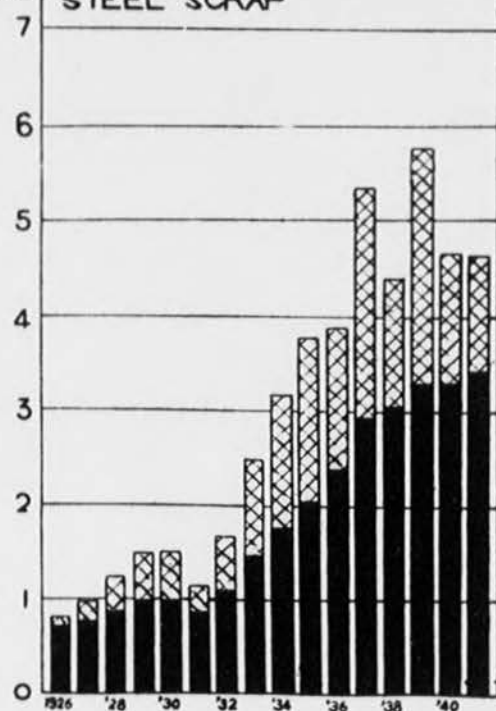
METRIC TONS
(MILLIONS)

PIG IRON



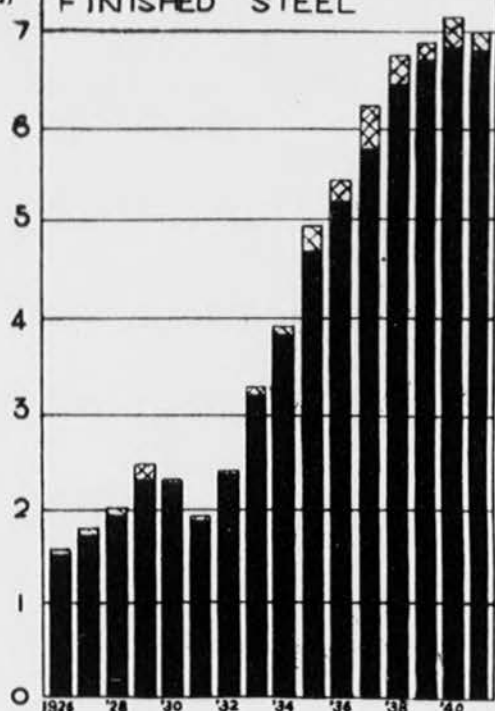
METRIC TONS
(MILLIONS)

STEEL SCRAP



METRIC TONS
(MILLIONS)

FINISHED STEEL



SOURCE: MINISTRY OF COMMERCE AND INDUSTRY

59. The type of development demonstrated in the above Chart was the creation of an artificial finished steel industry. It is noted that by far the greater percentage of iron ore was imported into Japan. Only the processing of finished materials was done. Thus Japan had to rely almost wholly on imports of basic ore to have any iron manufacturing industry at all. This development is quite contrary to the normal manner which is a natural development from existing raw materials. It goes without saying that Japan's iron industry was uncorrosive and was developed only in support of a national program which demanded iron products. Since iron is a basic raw material the purpose of this enormous expansion is shown in increased production of those products principally using iron in their manufacture. Specific reference is made to the shipbuilding industry, automobile and tank industry, heavy machine industry, machine tool industry, heavy armaments and others of a like nature. All of these products are the end products of iron industry directly and indirectly important to conduct of war.

LIGHT AND NON-FERROUS METAL PRODUCTION INDUSTRY

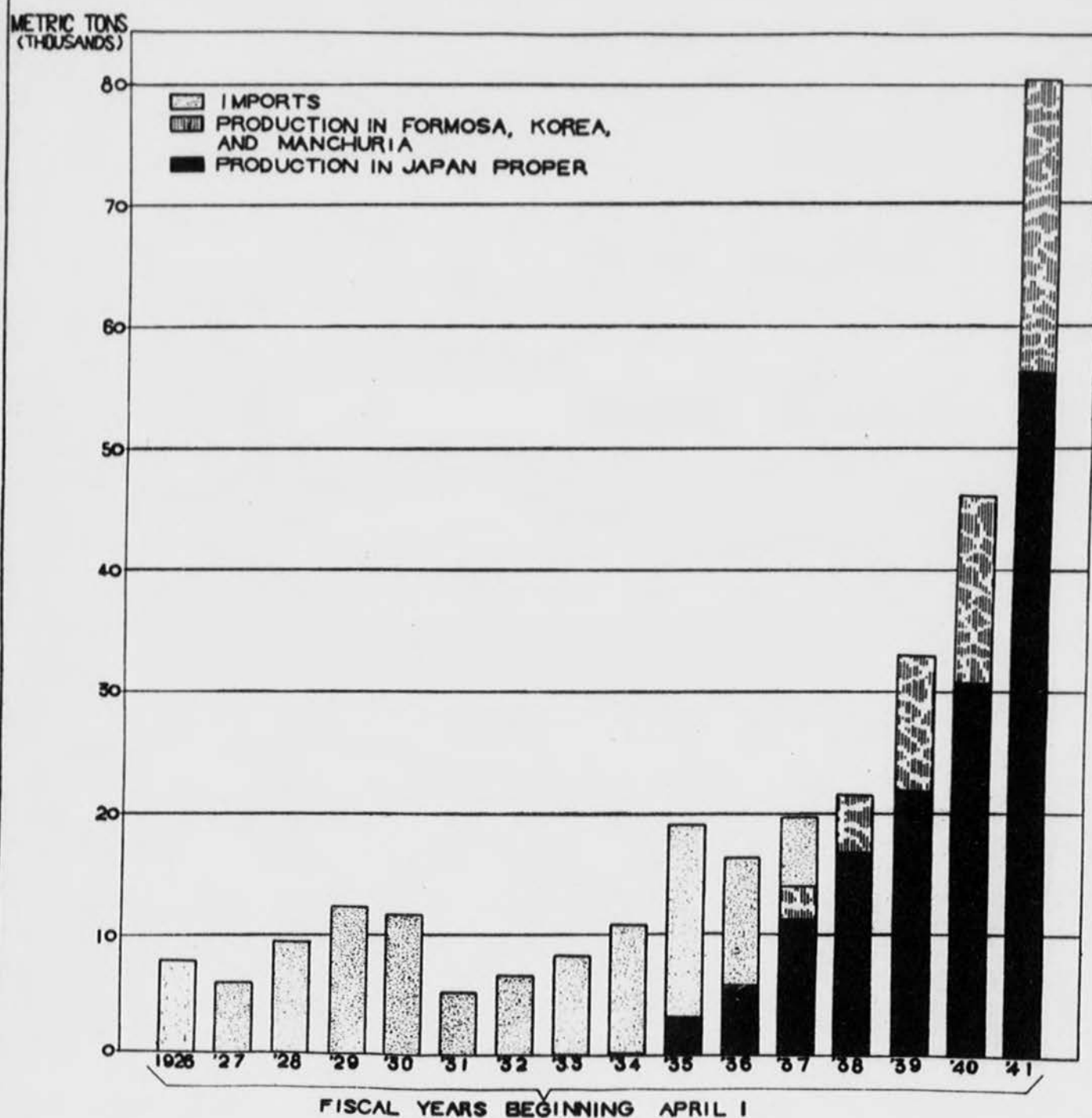
60. While special attention was paid by the Japanese Government to the stimulation of the production of certain minerals by specific law, as in the case of iron, gold and petroleum consideration was also given to the stimulation of the production of other minerals and metals as an important part of the program for supplying basic raw materials for war industries. For the production of light metals and non-ferrous metals, the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1922) specifically set goals to be reached by the end of 1941.

61. Aluminum is perhaps the most important of the light metals, particularly so when one considers that approximately 71 per cent of the Japanese aircraft and parts alone were made of aluminum. Other uses were for personal equipment, rolling stock and all those products where lightness in weight as well as strength is a factor of mobility. The importance of aluminum to war production is disclosed in the emphasis which the Board of Planning placed upon increasing its production. That Plan calls for the expansion in local production of from 19,000 kilo tons in 1938 to 126,400 kilo tons in 1941, or an expansion of approximately 667 per cent in four years. The actual extent to which the indigenous aluminum industry was expanded is shown in the following table marked "Aluminum Production, Imports and Consumption in Metric Tons" and more graphically illustrated in the attached chart marked "Aluminum Production in Japanese Empire".

ALUMINUM PRODUCTION, IMPORTS AND CONSUMPTION
IN METRIC TONS, 1925-1941

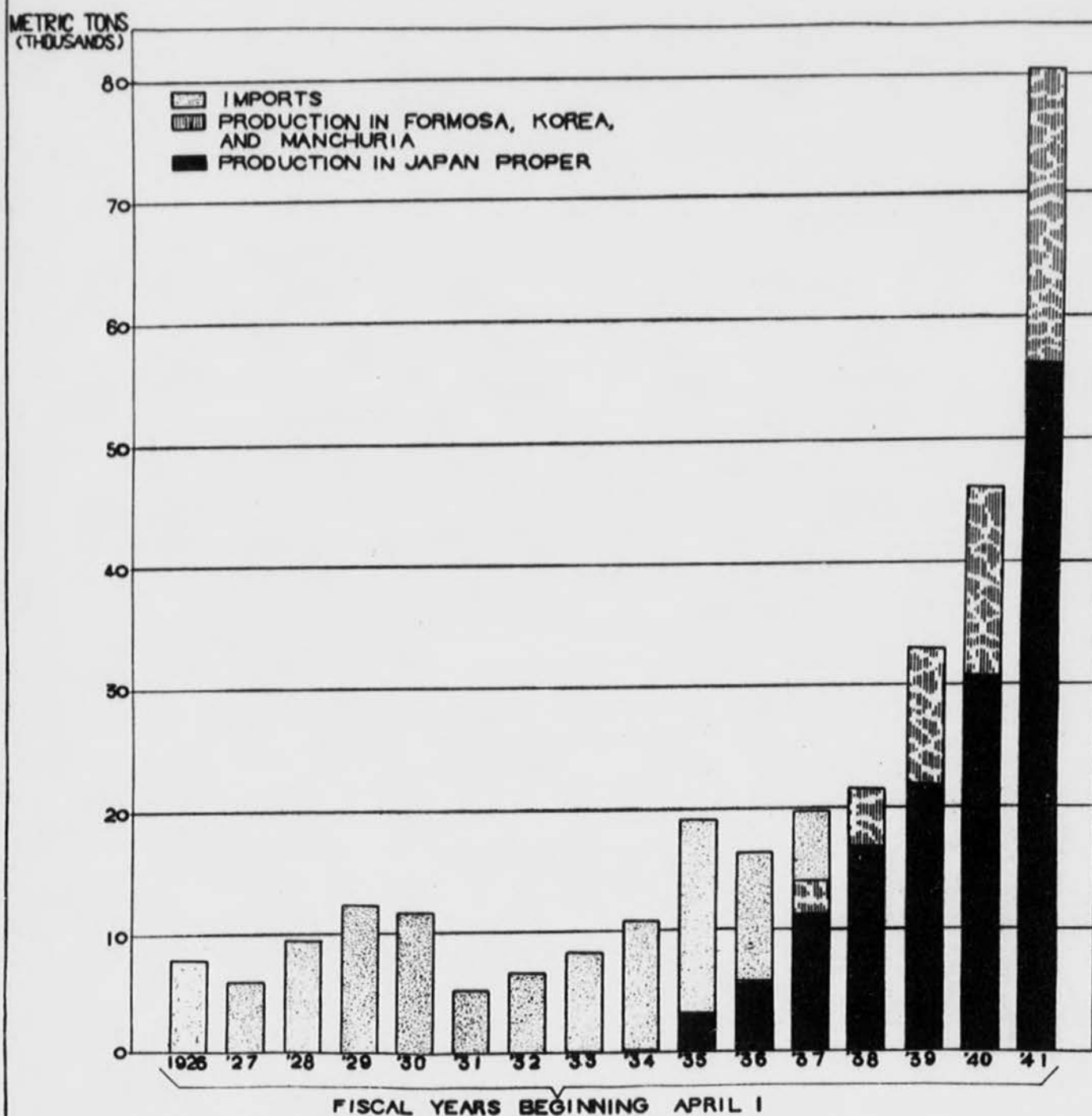
YEAR	PRODUCTION			Imports Ingots & Scrap	Apparent Consumption
	Japan Proper	Formosa Korea	Manchuria		
1925	-	-	-	n.a.	-
1926	-	-	-	7,418	7,418
1927	-	-	-	5,731	5,731
1928	-	-	-	9,088	9,088
1929	-	-	-	12,062	12,062
1930	-	-	-	11,419	11,419
1931	-	-	-	5,115	5,115
1932	-	-	-	6,503	6,503
1933	19	-	-	8,147	8,166
1934	1,002	-	-	10,743	11,745
1935	3,159	-	-	15,816	18,975
1936	5,497	210	-	10,573	16,280
1937	11,203	2,776	-	5,623	19,602
1938	16,728	4,608	-	**	21,336
1939	21,658	7,901	3,258	**	32,817
1940	30,620	10,243	5,026	**	45,889
1941	56,080	15,667	8,031	**	79,778

ALUMINUM PRODUCTION IN JAPANESE EMPIRE, 1926-1941



SOURCE: ① PRODUCTION DATA: LIGHT METAL CONTROL ASSOCIATION;
② IMPORT DATA: FINANCE MINISTRY

ALUMINUM PRODUCTION IN JAPANESE EMPIRE, 1926-1941



SOURCE: ① PRODUCTION DATA: LIGHT METAL CONTROL ASSOCIATION;
② IMPORT DATA: FINANCE MINISTRY

62. It is significant that prior to 1934 Japan imported all of the aluminum needed for her economy. The industry was advanced at great cost, uneconomically, to achieve self-sufficiency to insure material for aircraft and other production.

63. Magnesium is second strategic light metal which has manifold uses for war products. The Board of Planning provided that magnesium production should be increased from 1,123 kilo tons in 1938 to 11,000 kilo tons in 1941, or roughly an expansion of 979 per cent in four years. The actual expansion of the indigenous production of magnesium fell far short of the hopes of the Planning Board as disclosed in the following production table:

MAGNESIUM PRODUCTION
(Unit Kilo Ton)

1935	332
1936	655
1937	891
1938	1,331
1939	1,929
1940	3,097
1941	2,687

The above table indicates, nevertheless, the enormous expansion of the magnesium industry during the period 1935 to 1941.

NON-FERROUS METALS

64. Copper is one of the most important of the non-ferrous metals, having many war uses among which is the manufacture of projectiles, shell cases, sheeting, electric equipment, communications equipment, alloys, etc. The Board of Planning provided for an increase in indigenous production of copper from 97,406 kilo tons in 1938 to 179,000 kilo tons in 1941, or an expansion of roughly 80 per cent. The extent of the development and increase in indigenous copper production is shown by the following table which shows the increase of local production of refined copper, together with over increasing imports showing available supplies for military use.

REFINED COPPER

(Unit - Metric Tons)

	PRODUCTION	IMPORTS	TOTAL
1931	77,900	2,100	80,000
1932	74,200	1,900	76,100
1933	71,200	17,600	88,800
1934	70,700	51,500	122,200
1935	75,500	69,600	145,100
1936	83,900	53,300	137,200
1937	94,200	105,700	199,900
1938	151,400	101,700	253,100
1939	108,400	87,100	195,500
1940	150,900	32,000	182,900
1941	133,800	700	134,400

65. Lead is another extremely important war material, used in the manufacture of bullets, waterproof cables, communications equipments, pipes, solder, batteries, paint, alloys, etc. The Board of Planning, provided for the expansion in indigenous lead production from 18,744 kilo tons in 1938 to 35,550 in 1941, or an increase of approximately 90 per cent. The expansion in the indigenous production of lead is shown by the following production and import table. Inasmuch as sufficient lead is not to be found in Japan proper, it is significant that the total amounts of imports shown in the table continue to increase along with indigenous production. This fact indicates enormous uses of this commodity during the years prior to war and increased stocks available for war purposes.

LEAD PRODUCTION
(Unit Metric Tons)

PRODUCTION		IMPORTS	
1932	6,415	1932	55,954
1933	6,824	1933	67,254
1934	7,039	1934	95,114
1935	7,807	1935	91,408
1936	10,601	1936	97,822
1937	15,813	1937	n.d.
1938	16,283	1938	n.d.
1939	14,223	1939	101,001
1940	22,655	1940	92,090
1941	25,716	1941	78,538
1942	25,832	1942	720

66. Zinc ranks with lead in industrial importance. The indigenous production of zinc was planned to be increased from 55,800 kilo tons in 1938 to 95,000 kilo tons in 1941, or an increase of approximately 70 per cent. Zinc is used for corrosive resistant coatings on iron and steel, in the making of brass, bronze, die-castings, etc. Normally, zinc and lead are found together in their natural state so that the stimulation in the production of one would normally result in increased production of the other. Inasmuch as both have important war uses it was desired to increase the indigenous production of both. The following table indicates the extent of the increased indigenous production of zinc, together with imports. As in the case of lead, imports of zinc continued during the same years that increased indigenous production is shown. This fact again indicates enormous uses of this material in production during the years immediately preceding the war and heavy stocks available for war production purposes.

<u>PRODUCTION</u>		<u>ZINC</u>	<u>IMPORTS</u>
1932	27,043	1932	26,572
1933	30,658	1933	32,526
1934	32,145	1934	33,208
1935	30,207	1935	45,843
1936	36,968	1936	61,774
1937	49,786	1937	n.d.
1938	54,203	1938	n.d.
1939	51,256	1939	60,747
1940	59,703	1940	24,285
1941	61,092	1941	6,324

67. Nickel is considered a strategic war material occupying the prominent place in the manufacture of alloys of many sorts. The normal requirements of nickel for Japan are very low. Shortly prior to the China Incident, Japan began to stockpile this critical metal and increased her imports during the following years. When Japan found it difficult to continue the importation of nickel she proceeded to produce nickel from domestic ores which were of a very low grade. So uneconomic was this process that the government subsidized production to the extent of from 1200 yen to 1500 yen per ton. The subsidies for increasing the production of nickel paid by the Ministry of Commerce and Industry alone were as follows:

1939	94,690 Yen
1940	149,710 Yen
1941	206,000 Yen

68. The Board of Planning demanded a production increase of from 150 kilo tons in 1938 to 5,000 kilo tons in 1941, in spite of the fact that such production was almost a physical impossibility. The emphasis placed upon self-sufficiency in the production of nickel in spite of the manifold attendant difficulties is an excellent example of the type of uneconomic national planning indulged in for war production purposes. The following table shows imports of nickel, together with the smelter production from domestic ores:

ZINC SMELTER PRODUCTION
From Domestic Cress

(Unit Kilo Tons)

1937	-
1938	33
1939	143
1940	617
1941	1,823

IMPORTS OF ZINC & PRODUCTION
From Imported Ore

(Unit Kilo Tons)

1933	1,595
1934	2,958
1935	1,922
1936	6,280
1937	4,417
1938	8,829
1939	7,865
1940	845
1941	384

69. Tin is another metal vital for war equipment purposes and the Board of Planning provided that its production should be increased from 1204 kilo tons in 1938 to 3,500 kilo tons in 1941, or an expansion of approximately 100 per cent. Tin is not found in Japan proper but small quantities of tin are found within the Empire. The following table shows the expansion of the indigenous production of tin, together with the enormous expansion in imports of that commodity and the amount of tin available during the years immediately preceding the war.

TIN

(Unit - Kilo Ton)

	<u>Production</u>	<u>Imports</u>	<u>Total Available Suppl</u>
1931	1015	3330	4345
1932	1002	3532	4534
1933	965	3551	4516
1934	1218	4102	5320
1935	2069	4277	6346
1936	1870	4624	6494
1937	1702	7219	8921
1938	4400	9934	14334
1939	2944	8794	11751
1940	3896	9955	13858
1941	6419	1804	7223

70. While there were many laws and regulations passed for the benefit of special mining companies and enterprises operating under favors of the government, a further definite stimulus to indigenous mineral production generally was the Act to Promote the Production of Important Minerals of March 29, 1938. This Law provided that all operators of mines were to be licensed and that all owners of mines and mining rights had to submit for approval, by the government, a plan for the development of their mines and rights. In the event that the government ordered the commencement or re-commencement of mining operations, which were not satisfactorily carried out by the owners, the government could order the sale of mines and rights.

This, of course, forced the development of nearly every type of mineral production. The important minerals named in the law to be given consideration were gold, silver, copper, lead, tin, antimony, mercury, zinc, iron, iron sulphide, chromite, magnesium, molybdenum, nickel, cobalt, coal, lignite, sulphur, alluvial gold, iron sand and others to be decided by Imperial Ordinance. The law further provided that the government could order the owner of a mine to construct, enlarge, or improve mining equipments and could give orders concerning working progress as well as qualification of tools, equipments and materials. In the event that losses were incurred by mine owners in carrying out the order of the government, compensation was to be made. The operation of the Act to Promote the Production of Important Minerals placed virtually all mining activities, together with other special laws effecting mining, under direct government control, supervision and order in accordance with plans to stimulate war production potential.

71. Some indication of the cost borne by the government to stimulate the processing of minerals as well as mining is shown in the following table which discloses only the amount of subsidy paid by the Ministry of Commerce and Industry alone for the establishment of smelters and refineries:

1938	2,049,200 Yen
1939	1,981,420 Yen
1940	7,862,800 Yen
1941	12,485,000 Yen

LIGHT METAL MANUFACTURING INDUSTRY

72. The development of light metal mining has an important place in the development program of the Board of Planning. The extent of planned and factual expansion of light metal mining is treated in paragraphs 60 to 63 of this statement. The importance given to the development of facilities for the light metal manufacturing industry is noted in the Outline of the Five-Year Plan for Production of War Materials by the War Office, dated June 23, 1937 (IPS Document 9002 A), which indicates, in Appendix I, that the purpose of the peace plan production of light metal alloys shall be for converting to wartime production of aircraft and parts. The planned enormous expansion in the processing of aluminum and magnesium set forth in Section III of the Outline, at Sub-Section (3), provides that the special raw material industry and parts industry connected with munitions should be speedily expanded by means of the synthetic national policy. That the national policy stimulated the expansion of light metal manufacturing and processing is clearly shown by the Light Metal Manufacturing Law of April 28, 1938, (Law No. 88).

73. This Law had as its aim the "establishment of the manufacturing business of light metals with the object of contributing towards the adjustment of national defense". Light metals within the meaning of the law were aluminum and magnesium. It was provided that persons desiring to engage in light metal manufacturing must be licensed by the government after which the licensed companies were given many subsidies and privileges including exemption from income

and business profit taxes, local government tax, exemption from import duty on machinery and equipment necessary to build or expand light metal manufacturing plants as well as the right to expropriate land under the Land Expropriation Law. In addition, the licensed manufacturing companies were allowed to issue debentures up to twice the amount of their paid-up capital without security. For these licenses, privileges and subsidies the government was empowered to take over the supervision and direction of the manufacturing companies being empowered to fix prices of all products, to order changes in manufacturing techniques, to order expansion of plants and direct the type of goods to be manufactured, to name the purchasers of light metal products and to compel the stockpiling of basic materials needed for light metal manufactures. Thus the light metal manufacturing industries were completely controlled by government policy and securely bound to the war production program.

MACHINE TOOL INDUSTRY

74. Machine tools can roughly be described as the machines which make other machines - the only mechanisms that are self-perpetuating from an industrial point of view. The basic machine tools are lathes, drills, presses, drilling machines, planers, shapers, grinders and boring machines. For time saving purposes various complicated adaptations and combinations of machine tools such as automatic turret lathes, multiple boring machines and such type tools have been evolved to perform several intricate operations simultaneously. Mass production of finished metal machined products and working parts is impossible today without machine tools in large quantities. Hence, for an expanded industrial program, machine tool production is a primary necessity.

75. Until 1937, there were over 1000 small plants manufacturing machine tools in Japan in addition to the government arsenals. However, the major portion of machine tools were manufactured by five large companies. Before the China Incident, the United States, Germany and Great Britain were the principal sources of imports of machinery and parts. Between 1935 and 1940, samples of the best American Swiss, German and other make machine tools were purchased as prototypes by the Japanese. With almost unlimited Capital, and the use of prototypes and technical assistance from Sweden, Swiss and German Engineers, the Japanese went to work to establish self-sufficiency in the production of machine tools. By 1941 intensive integration of the industry had taken place so that approximately 90 per cent of the machine tools were manufactured in approximately 100 plants with the five leading companies operating 28 plants responsible for over half the total production.

76. The enormous impetus given to production of specific war materials by the planned program of the War Office required expansion of the machine tool industry with a view to self-sufficiency in production. That it was intended to encourage and cultivate the machine tool industries so that they could be converted to the manufacture of war materials is disclosed in the Outline of the Five-Year Plan for Production of War Materials of the War Office, (IPS Document 9002 A) at page 9, paragraph 4 as follows:

"The objectives of expansion of major industries convertible into industries for the manufacture of munitions in time of war throughout Japan and Manchoukuo are as follows:

- a. "Machine tool industry (excluding construction machinery industry)

"Although they will be steadily expanded according to the peacetime production conversion of already existing industries through arrangement of materials accompanying the promotion of industries, in general, based on the comprehensive national policy, and the repletion of armaments, but their installation capacity will be increased two to three-fold by about the end of 1941 through the comprehensive national policy."

Appendix No. I of IPS Document 9002 A at page 16 discloses the types of plants using machine tools in peacetime which were to be converted to the manufacture of specifically named war materials. For instance, spinning and weaving machinery was to be converted to the manufacture of shells using lathes, fuses, weapons and parts; the machinery for manufacturing clocks and watches was to be converted to the manufacture of fuses and firearms, etc. It is a very simple conversion in most cases to use multiple purpose machine tools employed in one industry for another industry.

77. The synthetic national policy mentioned in the Outline of the Five-Year Plan for Production of War Materials (IPS Document 9002 A) placed additional emphasis upon the importance of stimulating production of machine tools. In the planned expansion table attached to the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1522), it is disclosed that the machine tool production was to be expanded from a value of 76,000,000 yen in 1938 to 200,000,000 yen in 1941. This expansion, of course, was to provide machine tools which could be converted in time of war as well as machine tools primarily intended for use in the manufacture of war materials. While this program of expansion aimed at self-sufficiency, Japan, nevertheless continued to import machine tools to supply deficiencies in her program.

78. While various laws directed capital investment into the development of an indigenous machine tool manufacturing industry and controlled the flow of materials to aid that development, a further special stimulus was given to the machine tool industry by the Machine Tool Industry Law passed in the Spring of 1938. This law made it necessary to obtain permission from the government to organize, transfer or suspend machine tool production or to modify or expand equipment. At the same time manufacturers were made subject to regulations regarding prices, purchases of equipments, use of materials, standardization of products and other government controls. The government further was empowered to order mergers of plants and equipments, to order specific production and make compensation occurring in case of loss from such orders. As an encouragement to machine tool production under the Machine Tool Industry Law, those licensed machine tool producers were exempted from income,

profits and local taxes for five years. Imports for the purpose of increasing the materials in support of the industry were made free of duty. In addition, the government provided development subsidies and in certain cases compensation for depreciation of capital investments. In subsidies for the manufacture of machine tools, the Commerce and Industry Ministry alone paid 296,000 yen in 1938, 500,000 in 1939 and 450,000 in 1940. These subsidies, of course, were in addition to other subsidies and were used for the encouragement of the industry solely.

79. Among the biggest users of machine tools were the Japanese Army and Navy Arsenal which purchased special purpose machine tools directly through purchasing missions which went around the world seeking prototypes for the infant Japanese industry. Between the years 1937 and 1940, the Japanese Army Ordinance and Aviation Arsenal purchased more machine tools in the United States than any Japanese industrial company. For this period there were shipped from the United States to the Army Ordinance and Aviation Arsenal approximately 22½ Million Dollars worth of machine tools.

80. The force of law and regulation focused on the procurement of machine tools resulted in enormous expansion of indigenous production as well as increased imports. The following table marked "Production, Import and Export of Machine Tools, Japan Proper" shows this expansion clearly for the ten-year period before 1941. The attached chart marked "Machine Tool Production and Net Imports in Japan Proper" is a graphic illustration of the table:

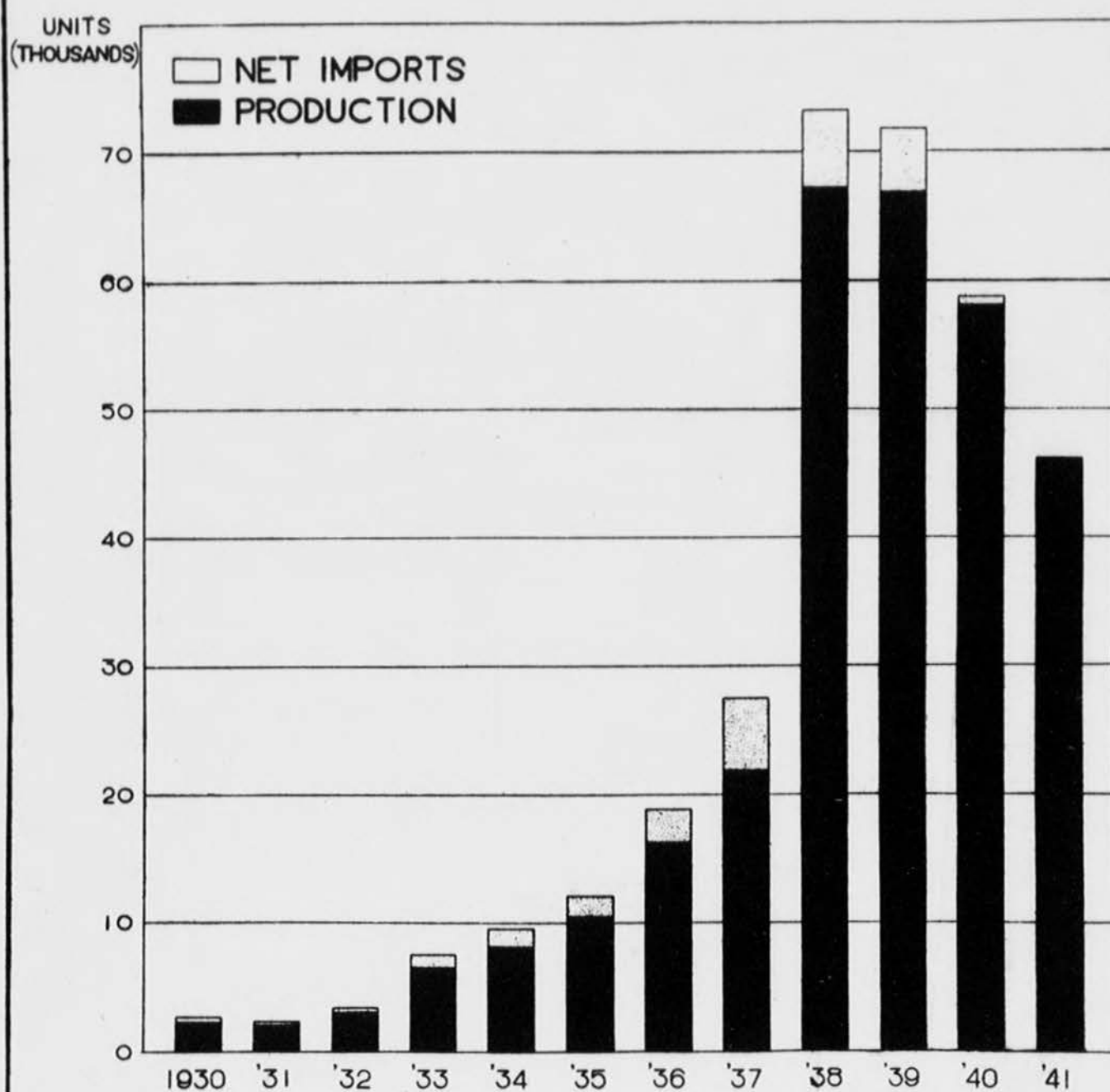
PRODUCTION, IMPORT AND EXPORT OF MACHINE TOOLS
JAPAN PROPER, 1930 - 1941

Year	Production	Import	Export	Supply
1930	2,250	500 ^{1/}	120 ^{1/}	2,630
1931	2,100	300 ^{1/}	100 ^{1/}	2,300
1932	3,000	450 ^{1/}	120 ^{1/}	3,300
1933	6,500	1,140	150 ^{1/}	7,490
1934	8,200	1,602	200 ^{1/}	9,602
1935	10,500	1,205	210 ^{1/}	11,995
1936	16,227	3,248	660 ^{1/}	18,815
1937	21,888	6,324	710 ^{1/}	27,502
1938	67,260	7,128	1,200 ^{1/}	73,188
1939	66,830	7,635	2,700 ^{1/}	71,765
1940	58,088	3,134	2,500 ^{1/}	58,722
1941	46,058	1,500 ^{1/}	1,500 ^{1/}	46,058

Note: Exports estimated ^{1/}

Imports estimated ^{1/}

MACHINE TOOL PRODUCTION AND NET IMPORTS IN JAPAN PROPER, 1930-1941



SOURCE : MINISTRY OF COMMERCE AND INDUSTRY AND
MACHINE TOOL CONTROL ASSOCIATION

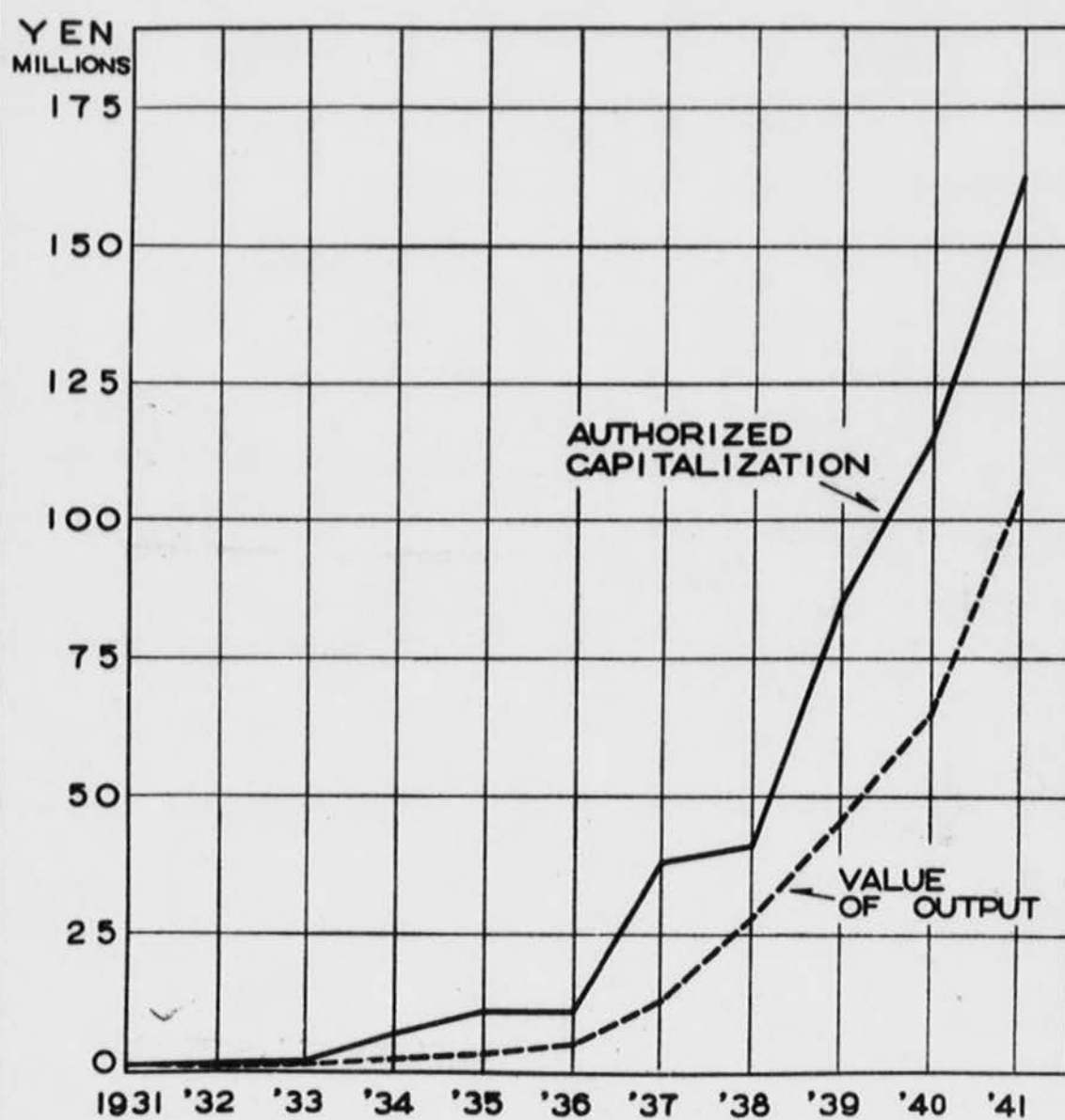
81. Closely allied to the machine tool industry from the standpoint of importance in industrial machines and end products is the precision bearing industry. Every important machine having moving parts uses precision bearings. War machines are no exception. For war machine purposes precision bearings are a critical item. Hence, certain types of industrial expansion can be quickly gauged by the expansion of the bearing producing industry and the output. The following table marked "Production and Capitalization in Precision Bearing Industry, Japan Proper" shows the remarkable expansion of this industry. The table is graphically illustrated by the attached chart marked "Expansion of Precision Bearing Industry in Japan Proper".

PRODUCTION AND CAPITALIZATION IN PRECISION BEARING INDUSTRY,
JAPAN PROPER 1930 - 1941

(Thousand Yen)

<u>YEAR</u>	<u>Authorized Capitalization</u>	<u>Value of Production</u>
1930	1,000	1,000
1931	1,000	1,000
1932	1,000	700
1933	1,500	1,000
1934	6,500	2,000
1935	11,050	3,000
1936	11,050	5,000
1937	37,900	13,000
1938	40,400	28,000
1939	85,230	45,000
1940	115,230	65,000
1941	162,610	105,000

EXPANSION OF PRECISION BEARING INDUSTRY IN JAPAN PROPER, 1931-1941



SOURCE : PRECISION MACHINE CONTROL ASSOCIATION

MOTOR VEHICLES, TANKS AND ROLLING STOCK INDUSTRY

82. The Japanese Motor Vehicle Industry was virtually non-existent prior to 1936. Domestic manufacture has not only been quantitatively small but poor in quality. Prior to 1936, almost all of the automobiles, engines and parts used in Japan were imported. Japan has always been much less dependent upon motor vehicles for transportation than most of the western countries. At the beginning of 1938, for example, Japan had only one truck or bus per 700 people as against one for 38 people in the United States, 81 in the United Kingdom, and 186 in Germany. Even Italy, ranking next lowest to Japan, had approximately twice as many per capita. With the advent of war planning indigenous motor transport production was considered an indispensable necessity for military forces. The establishment of an indigenous automobile industry in Japan, however, is not based upon sound economics or good business, but upon the opinion of the Japanese Government that reasons of national defense required the development of such an industry regardless of the cost involved.

83. The Automobile Industry Control Law (Law No. 33), was enacted May 29, 1936 to "firmly establish the necessary motorcar industry enterprise in order to adjust national defense and develop the nation's industry". It was provided that all companies undertaking to manufacture motorcars must be licensed by the government, whereupon, companies manufacturing motor vehicles were exempted from corporation, business and income taxes for a period of years. Likewise, motorcar manufacturing companies were exempted from import taxes on machinery and equipments necessary for the establishment of plants or the maintenance of their enterprises.

Further, as an incentive to development, such companies were allowed to offer debentures, beyond the limitation provided in the Commercial Code, to the equivalent of double the amount of the paid-up shares. Protection of the infant industry was provided in that the government was authorized by the law to take whatever steps were necessary to restrict imports. These steps were taken very quickly.

84. In spite of all the government's efforts to increase production of automobiles it was a very expensive industry, depending almost entirely upon government subsidy for its existence. For example, in the immediate pre-war period it cost about 8,000 yen for a Japanese producer to make a standard small size truck which was sold to the general public for 4,500 yen. This constituted a loss of approximately 3,500 yen which was made up by the government subsidy. Competition with imported vehicles under such circumstances was so impossible that by 1938 import duties were approximately 50 per cent ad valorem on both cars and parts. By 1940 there were virtually no imports of automobiles to Japan.

85. For the granting of these special protections and subsidies, the Automobile Industry Control Law provided, in effort, that the government should control manufacturing, planning and designing, operational facilities, sales, prices and other related matters. An interesting provision of this law was that the government might issue orders to a motorcar manufacturer directly for the manufacture of military cars or their parts and the establishment of special facilities deemed necessary to fill the orders. That the military demanded expansion of automobile production is shown in the provisions of the Outline of the Plan for the Expansion of Productive Power by the Board of Planning

(Part III of IPS Document 1522) which provides that motorcar production should be expanded from 15,700 units in 1938 to 80,000 units by the end of 1941. That the military intended to use the Automobile Manufacturing Control Law as the authority for forcing production of automobiles is disclosed in the Outline of the Five-Year Plan for Production of War Materials by the War Office (IPS Document 9002 A). As a policy to assist in the expansion of the automobile industry it was provided in the above mentioned IPS Document 9002 A at page 7, sub-paragraph 2, as follows:

"In regard to armament industries (including tanks and special military vehicles) and industries manufacturing related parts and raw materials, they will be privately shown the estimated orders for over several years from time to time within the scope of not hampering the preparations suitable to the immediate situation in the future and will be guided toward rapid expansion with the supply of capital being made smooth.

"In regard to airplane industries and industries manufacturing related parts and raw materials, they will be guided toward expansion for the time being according to the preceding paragraph in order to meet the urgent demands from the standpoint of peace time arrangement of military materials accompanying the repletion of armaments. However, large scaled expansion carried out according to the national policy will be considered. In regard to the expansion of automobile industry, the application of the Automobile Manufacturing Enterprise Law will be relied upon and the Military Automobile Subsidy Law will be utilized."

86. Indigenous automobile production was desirable from the military point of view, not alone for the production of automobiles, but also to create equipments and plants, a part of which could be converted to the manufacture of tanks and aircraft and aircraft parts. The Outline of the Five-Year Plan for Production of War Materials (IPS Document 9002 A) provides in Section II, page 4, as follows:

(Part III of IPS Document 1522) which provides that motorcar production should be expanded from 15,700 units in 1938 to 80,000 units by the end of 1941. That the military intended to use the Automobile Manufacturing Control Law as the authority for forcing production of automobiles is disclosed in the Outline of the Five-Year Plan for Production of War Materials by the War Office (IPS Document 9002 A). As a policy to assist in the expansion of the automobile industry it was provided in the above mentioned IPS Document 9002 A at page 7, sub-paragraph 2, as follows:

"In regard to armament industries (including tanks and special military vehicles) and industries manufacturing related parts and raw materials, they will be privately shown the estimated orders for over several years from time to time within the scope of not hampering the preparations suitable to the immediate situation in the future and will be guided toward rapid expansion with the supply of capital being made smooth.

"In regard to airplane industries and industries manufacturing related parts and raw materials, they will be guided toward expansion for the time being according to the preceding paragraph in order to meet the urgent demands from the standpoint of peace time arrangement of military materials accompanying the repletion of armaments. However, large scaled expansion carried out according to the national policy will be considered. In regard to the expansion of automobile industry, the application of the Automobile Manufacturing Enterprise Law will be relied upon and the Military Automobile Subsidy Law will be utilized."

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"It is planned to expand and cultivate the munitions industries (including parts and raw materials industries) as well as the various industries to be converted in time of war simultaneously with the expansion of the major national defense industries and to strengthen the necessary control.

"The emphasis of expansion is to be placed on the production of airplanes, arms and ammunition, tanks and military vehicles, which are the main factors for constituting fighting power, and on others directly connected to this."

* * * * *

"In regard to the automobile industry, those in the category of genuine war supplies such as tanks and special military vehicles will be governed by the foregoing Clause 2, but in regard to ordinary automobiles, it will be guided by the comprehensive national policy in such a way as not to impede the commandeering and supplying of the required number in time of war. However, necessary military administration measures will be devised to have a considerable portion of the wartime capacity of the said industry cooperate in the war-time production of airplanes."

Appendix No. 3 of IPS Document 9002 A at page 27 sets out a schedule indicating the degree to which the automobile engine industry should be converted to the manufacture of airplane engines.

87. With regard to the manufacture of tanks and armoured vehicles it was proposed to use the expansion of the automobile industry for the purpose of converting to the manufacture of tanks. The Outline of the Five-Year Plan for Production of War Materials (IPS Document 9002 A) indicates on page 4, paragraphs 2 and 3; on page 9, paragraph 2c, Appendix I, pages 17 and 18; and Appendix 6, pages 34 and 35 that the two industries are inter-related for purposes of producing war equipments. I will read those portions of the document.

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It was further proposed to use the infant industry of Manchuria for the purpose of manufacturing tanks and military vehicles. The following is a quotation from pages 4 and 5, and 35 of IPS Document 9002 A:

"The areas of expansion will be both Japan and Manchoukuo and their field of operation will be determined roughly as follows:

"(a) In regard to the continent, particularly Manchuria, local production of airplanes, arms and ammunition, tanks and military vehicles will be started in connection with the development of raw materials and resources and gradually developed to make possible mass production in time of war."
(pp 4 and 5)

* * * * *

"War-time Production Conversion of Private Enterprises
890 (of which approximately 900 Tanks
are converted)

Engines--Utilization of Automobile Industry --
Manchuria." (p 35)

In the detailed schedule for expanded war material production in Manchuria, Appendix No. 7, IPS Document 9002 A, it was anticipated that 50 tanks per month, including armoured cars, would be manufactured.

88. An increased production of rail transportation facilities was likewise a necessity brought about by war-time planned economy. The Outline of the Plan for the Expansion of Productive Power by the Planning Board (Part III, IPS Document 1522) aims at the expansion in the production of locomotives from 877 units in 1938 to 1100 units by the end of 1941; of rail cars from 1161 units in 1938 to 2000 units by the end of 1941; of freight cars from 14,111 units in 1938 to 21,000 units by the end of 1941. This expansion would appear to be extremely significant when one considers the already well developed railway system in Japan which was operated by the government. That the expansion of railway production equipment as well as the expansion of equipment

itself was considered important for the war effort is disclosed in the Outline of the Five-Year Plan for the Production of War Materials (IFS Document 9002 A). At Appendix No. 1, page 17, a plan to convert the vehicle industry to the manufacture of locomotives for army use, parts of weapons, assembling of tanks, etc., is shown. It was further planned, in Appendix No. 7, of IFS Document 9002 A. page 38, that Manchuria was to provide a capacity of 130 light railway freight cars per month for military use.

AIRCRAFT INDUSTRY

89. Aircraft production commanded top priority in the Japanese program for war preparations. In support of this statement I will read the following excerpts from the Outline of the Five-Year Plan for Production of War Materials by the War Office, (IPS Document 9002 A):

- a). Page 4, paragraphs 2, 3 and 4(a).
- b). Page 8, sub-paragraph 3.
- c). Pages 21, 22 and 23 through (6),
page 26 and page 27 of Appendix 3.

90. To give effect to planned aircraft expansion concerted action was taken by the government in the promulgation of the Aircraft Manufacturing Law in March 1938. This Law provided for the licensing of manufacturers of aircraft, aircraft parts and accessories by the Japanese Government. Subsidies in the form of exemptions from income and business profit taxes, local government tax, import tax on tools, machinery and materials necessary for the development of plants were to be granted as well as encouragement money for the manufacture of new types of aircrafts. Likewise, licensed companies were allowed to effect an increase in capital even before original capital on the company was fully paid up and were allowed to issue debentures up to twice the paid-up capital without security. For these and other special privileges the government completely took over the direction of the licensed plants. Such direction included supervision and authority to order expansion of plants, special manufacture,

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researches, training of technicians, joint use of facilities, fixing of prices and all other matters "necessary in the public interest". Thus the aircraft manufacturing industry became completely dominated by the government's program for its expansion.

91. The following table illustrates the expanded production of military aircraft for the years 1935 to 1941 inclusive:

LIST OF MILITARY AIRCRAFT PRODUCTION

TYPE

Army Aircraft Bodies	1935	1936	1937	1938	1939	1940	1941
Pursuit F.	11	188	342	400	549	596	724
Bomber	167	42	85	752	1,203	693	769
Reconn. P.	139	94	140	106	179	524	746
Others	32	239	280	409	737	1,195	1,548
Total	349	563	847	1,667	2,668	3,008	3,787
Navy Aircraft Bodies							
Fighter	91	258	407	466	463	668	620
Bomber	27	49	142	496	522	452	492
Patrol P.	59	146	144	340	430	247	210
Others	231	120	88	385	707	744	758
Total	408	573	781	1,687	2,122	2,111	2,080
Army & Navy Aircraft Motors							
Air-cool	481	792	1,404	2,260	5,973	7,334	11,652
Water-cool	103	78	22	468	596	257	2
Total	584	870	1,426	2,728	6,569	7,601	11,654

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The above table does not show the production of aircraft for civilian uses nor does it show the true picture of expansion in the production potential of aircraft as developed during these years. Such potential can best be judged by the development of the machine tool industry, the light metal industry, the automobile industry and others which were expanded with a view to conversion of their facilities to the manufacture of aircraft and aircraft parts. One can properly say that the aircraft industry was being prepared for war production on a far greater scale than appears from the actual production of war planes, although that production proceeded along the schedule outlined by the War Office.

INDUSTRIAL CONTROL

92. In addition to the direct and indirect controls for stimulation of specific industries, as outlined briefly in the foregoing surveys, in furtherance of a planned economy as demonstrated by laws and regulations affecting the specific industries, other direct measures of industrial control of universal nature were planned and executed. In support of this statement I will read the following excerpts from the Outline of the Five-Year Plan for Production of War Materials by the War Office, dated 23 June 1937, (IPS Document 9002 A):

- a) Page 3, paragraphs 1, 2 and sub-paragraph 3.
- b) Page 5, paragraph 6.
- c) Pages 13 and 14, Section V.

I shall also read the following excerpt from pages 3 and 4, paragraph 3 of the Outline of the Plan for the Expansion of Productive Power by the Board of Planning, dated January, 1939 (Part III of IPS Document 1522):

93. To accomplish the purpose of general concentration of industrial control for war purposes it was planned to build upon the basic structure of cartels and control mechanisms already in existence in industry. A brief review of these mechanisms will serve to explain the simplicity and completeness of their operation. In December 1929, rationalization of industries in a narrow sense first came into being with the formation of the Special Committee on Industrial Rationalization of the Ministry of Commerce and Industry. In June of 1930, the Emergency Industrial Rationalization Bureau was formed. This Bureau, created for normal government purposes, formulated plans for standardization and simplification of parts and products, dissemination

of scientific industrial management data, and generally provided for substantial measures to assist in national recovery and promote industrialization for export trade.

94. A first direct attempt to control heavy industries for the sake of a national planned economy was undertaken in August 1931 with the passage of the Major Industries Control Law. This law provided for large scale heavily capitalized industries by facilitating industrial self-control and making legally enforceable agreements made between producers and important industries with regard for the public welfare. However, an amendment to this law in 1936 enforced cartelization of major industries and placed such industrial self-control organs under direct government supervision. In cases where persons operating in the major industries made a cartel agreement which effected one-half or more of the total production within the specific industry such an agreement had to be registered with the Government Control Committee and could be modified by that Committee in the public interest. Of course, such cartel agreements within the Major Industries forced many mergers of plants and equipments and threw the control of the Major Industries generally into the hands of the large groups. The industries specifically cartelized by the government permission and direction were cotton spinning and weaving, silk spinning and weaving, rayon, paper, carbide, flour, sulphuric acid, cement, copper, sugar and oil pressing. Other Major Industries such as iron and steel, mining, import and export and shipbuilding were being effectively consolidated by other special laws and programs.

95. The effect of such enforced cartelization was to destroy the ability of the small and medium scale industries to compete with large industrial organizations controlled by the so-called Zaibatsu interests. Since anti-monopoly laws were repugnant to this Japanese method of industrial control for the national welfare, smaller concerns united into guilds and unions for protection. The Industrial Guilds Law, as amended in 1931, contained provisions for the unionization and associational control of smaller manufacturing industries with provisions similar to the Major Industries Control Law. Again in September 1932, by the Commercial Guilds Law, control and organization of commercial undertakings was fostered. Increased facilities for guilds, and associations from a standpoint of banking, were provided in 1936 by the Central Bank for Commercial and Industrial Associations which loaned money at cheap rates and provided many special facilities.

96. The extent of the forced mergers of companies and their recapitalization for streamlined operation is disclosed in the statistics of the Bank of Japan which tell plainly what was accomplished by such measures. During the year 1940, 212 major corporation mergers took place affecting capital investment of 2,300,000,000 yen, approximately. During the first half of 1941, 172 major companies mergers took place, affecting capital investment of over 3,000,000,000 yen.

(By 1941 there were over 1000 Kogyo Kumiai or Guilds formed of smaller enterprises). The significance of these enormous mergers indicates the strength of the government's program and the desire to build a complete control structure upon a foundation of unification of similar enterprises under government supervision.

97. Following the Plan for Control provided for in Section V of the Outline of the Five-Year Plan for Production of War Materials, (IPS Document 9002 A), there resulted the National General Mobilization Law effective May 1938 which is Court Order 839. This law is the basic legislation for the complete mobilization of all facilities for war economy not otherwise provided. I will read the following excerpt from The National General Mobilization Law.

98. One of the first important ordinances affecting industry promulgated pursuant to the National General Mobilization Law was the Ordinance Concerning the Plan by the Promoter of a Business for General Mobilization, dated 26 July 1939. This Ordinance provided that the Ministers of War and Navy could call in the owners or promoters of selected businesses, named pursuant to ordinance under the National General Mobilization Law, and order such persons to make plans for production following a set national production schedule. This authority of the Ministers included the power to order the type of training programs of personnel within the specific industrial plants in conformity with anticipated needs for skilled personnel as disclosed in IPS Document 1522. Such methods forced businessmen to cooperate in the execution of the plans of the Army and Navy to fullest extent of their facilities and skills.

99. One of the most forthright industrial ordinances promulgated pursuant to the National General Mobilization Law, was Imperial Ordinance No. 901 of December 28, 1939 entitled Use and Expropriation Ordinance of Factories and Workshops.

Pursuant to this Ordinance the War and Navy Ministers were given the authority to authorize expropriation of materials, lands, buildings, constructions, machinery and equipment, deemed necessary for the national general mobilization. Upon notification by the competent ministers, the owners and operators of selected plants simply turned them over to the government direction and management. Likewise, by order, the owners or operators of such plants who turned them over for government use were to make available their workers as demanded by the government. This expropriation law applied likewise to patents. Article No. 27 of the National General Mobilization Law provided for a method of compensation. This ordinance, aimed at materials and equipments manufacturers, was a constant threat to private ownership to obey the instructions of the Army and Navy and provide the equipments desired.

100. The most sweeping of all the control ordinances, however, was the Key Industries Control Ordinance promulgated August 30, 1941. This Ordinance was based upon the provisions of Article 18 of the National General Mobilization Law and was to serve as a foundation for the complete control of all major industries by the government, using the cartel structure already in existence as its guiding principle. It was provided that the major industries named by the government were to form themselves into control associations according to type of industry. Thus there was to be in each major industry such as, iron and steel, cement, machinery, chemical, rubber, rolling stock, etc., one single national industrial organization for each kind of industry. The power of each such national association was to:

- (a) Participate in the government's plans concerning production and distribution in the industry concerned and the demand and supply of raw materials, funds, labor required in the said industry, and also the government's other plans concerning the said industry.
- (b) Control and guide concerning the production and distribution in the industry concerned and also the control and guidance concerning the enterprises in such industries which are owned by its members or by persons who form the organizations which become members of the said control organizations.
- (c) Increase the perfection of the organization of the industry concerned.
- (d) Establish the importance of technique, the promotion of efficiency, the standardization of specifications, the importance of the accounting system, and other facilities for the development of the enterprises in such industry.
- (e) Oversee the investments and resources in the industry concerned.
- (f) Conduct inspection of the enterprises in the said industry.
- (g) Control other enterprises which are necessary for the attainment of the importance of the control of the association.

The system established provided that each industrial Control Association should nominate a president who would be appointed by the government. All of the important directors of associations were appointed subject to government sanction. The right of dismissal of officials was in the hands of the government. The Control Association, by direction of the president, could impose special levies on the members, order the merger of enterprises within the industry for the sake of efficiency, order changes in plant equipments and management and, in general, exercise complete and autocratic control over the entire industry. The fixing of production plans, the allocation of materials to individual plants to effect planned production, the nomination of sale of all products, the establishment of wage policies and the fixing of prices within each industry was made pursuant to the joint planning of the heads of the Control Associations and the Planning Board who united policy and production. In this connection it can be said that one of the functions of the Planning Board was to compare the indigenous supplies of materials with production demands and make plans for the means of securing and paying for deficiencies, making such adjustments as were consistent with the national policy. All producers were forced to become members of their respective industrial association or go out of business. In certain cases diversified companies had to belong to several associations. In those cases where individual producers were too small to participate they were either merged into larger enterprises, or were formed into a union of similar enterprises and the

union taken in as a member of the Control Association. In each prefecture sub-control associations were formed for the sake of efficiency in dissemination of orders and effective control.

101. This elaboration of the control association system was the perfection of the already well-functioning system with the added element of universal application. It was established immediately preceding the outbreak of war to perpetuate peak wartime production which was planned to be reached by the end of 1941. The timing of such activities would appear to be extremely significant when one considers the element of preparation in the light of events subsequent to December 7, 1941.

102. In addition to the many methods for stimulating war materials production, otherwise cited, the government directly took over the job of equipping war industry plants pursuant to legislation enacted November 25, 1941 (Law No. 91). This Law was entitled, "Law Concerning The Sangyo Setsubi Eidan" ("Industrial Equipment Corporation"). By virtue of the aforementioned law, the government created a special equipment corporation, a juridical person, with the following object:

"Article 1.

"The objectives of the Industrial Equipment Corporation are, in time of war **** inclusive of a serious accident that shall be regarded as the same, to have the following industries equipped with necessary plants, such as munitions industries, the production of which shall be increased on

certain definite lines of the government programmes and other indispensable industries for national economy when any other enterprisers could hardly do the same or maintain such equipments, and are to build ships that shall conform to gauge designated by the government, and to make full use of industrial plants, inclusive of machines and implements to be used in furnishing the mentioned plants, which are not yet brought to completion or employed **** these shall be called the unfinished and unemployed plants in the following Articles".

To achieve the purposes outlined in the objectives for the establishment of this corporation it was empowered to transact the following business:

- "(1) To construct or purchase plants of the indispensable industries for the national economy when other enterprises cannot construct or maintain such plants.
- "(2) To lend, invest in and sell the plants obtained or constructed.
- "(3) To give orders to build or manufacture ships, ship's engines and equipment that shall conform to government specifications.
- "(4) To sell such ships and ship's equipments.
- "(5) To buy, sell and hold the unfinished and unemployed plants.
- "(6) To act as mediator in making full use of unemployed plants.
- "(7) Do the necessary business to carry out the above named purposes".

103. As a further facility to carrying out the business of the Industrial Equipment Corporation it was exempted from income, corporation, business and local taxes. Its entire capitalization of 400,000,000 yen was supplied by the government, and for additional funds it was authorized to issue debentures up to 15 times the amount of the paid up capital, with the government standing security for the payment of both principal and interest. The governors, directors and auditors of the corporation were to be appointed by the government. In addition to all this, the corporation was authorized to expropriate or use land, and the rights connected with land other than the ownership, when it was deemed necessary in constructing plants of the indispensable industries.

104. The planned and accomplished expansion in production by the various industries before December 7, 1941 as disclosed in the foregoing surveys, far exceeded the amount of materials and potential needed for the conduct of the war in China. The elaborately detailed planning and careful gathering of controls in the hands of the government effectively chained all industry to the national policy of industrial preparation for a far greater conflict. In a speech made by Kenryo SATO, Chief of the Military Affairs Section of the War Ministry, in March 1942, a copy of which is IPS Document 9027 A, this fact is made unmistakably clear. I will read an excerpt from that Document taken from pages 5 and 6 which reviews government policy for industrial production in connection with the China Incident which needs no further amplification from me.

FINANCIAL PREPARATIONS

105. Under the Japanese form of totalitarian imperialism financial controls for the years immediately preceding 1941 were designed for two purposes:

- (1) To integrate dependent territories into the economic system of Japan in order to draw from them materials and wealth necessary for strengthening the Japanese economic position, and to control the flow of money and goods to achieve the maximum benefits of foreign trade in support of industrial production for war purposes.
- (2) To use most effectively the total financial capacities of Japan proper to build up war production and war production potential by direct and indirect government spending and by rigid control over the flow of money capital, and goods.

INTEGRATION OF TERRITORIES

106. During the Manchurian Campaign, 1931 to 1932, the Japanese Army relied upon the Bank of Chosen (The Bank of Issue of Korea under the control of the Japanese Government) to supply currency and to provide banking facilities. As a result of these operations, chiefly on behalf of the Japanese, bank note circulation of The Bank of Chosen, rose from 75,000,000 yen on June 30, 1931 to 222,000,000 yen at the close of '1935 when gradual withdrawal of these notes was initiated; at which time notes of the Central Bank of Manchuria (The Bank of Issue of Manchoukuo) were issued

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instead. Additional financing for industry during this period was handled through the South Manchurian Railway, a national policy company of the Japanese Government, which, together with its subsidiary companies, spread like an octopus into nearly every phase of Manchurian developments.

107. After the establishment of the Manchoukuo Government an agreement was entered into between the Imperial Japanese Government and the Imperial Government of Manchoukuo which politically as well as practically bound the economies of the two nations. I have a copy of a record of the meeting of Privy Council held on 3 July, 1935, (IPS Document 275A), which discloses the true purpose of the agreement from the Japanese Government's point of view. I shall read the first eight pages of that record.

The Agreement Regarding the Establishment of the Joint Economical Committee of Japan and Manchoukuo (IPS Document 2196A) was signed on the 15th of July, 1935. I will read that document, the import of which can be more clearly understood in the light of IPS Document 275A.

108. The creation of the Industrial Bank of Manchuria in December, 1936 furnished a means of financing the planned development of Manchurian industry. The Bank was originally capitalized at 60,000,000 yen and later increased to 100,000,000 yen. Officials of the Bank were appointed by the Government and its activities supervised by the Finance Ministry. The Industrial Bank was authorized to issue debentures up to 15 times the amount of paid up capital and authorized to issue saving debentures to secure necessary funds for industrial development purposes. The facilities afforded by this

Bank provided easy financing for preferred industries named by government policy which after all was Japanese dominated.

109. In November, 1935 the yen bloc was established when Manchou'kuo's currency was legally cut off its silver basis and stabilized at par with the yen. This action integrated the monies of the two countries, Japan and Manchoukuo. The yen bloc was enlarged in March, 1938 when Japan, her colonies, Manchoukuo and the dominated parts of China accepted the money notes issued by the Federal Reserve Bank of China. Under the regulations then put into effect Manchoukuo and China utilized the yen balances supplied by Japanese Banks practically as their exclusive currency reserves.

110. The "Essentials of the Five-Year Program of Important Industries by the War Ministry", dated 29 May 1937, (Part I of IPS Document 1522) discloses that the Japanese War Ministry in its planning intended to make use of the reserves and materials of Manchuria and North China. The following quotation is taken from page 1, paragraph 2 of that Document:

"Although our Empire is made the subject in the promotion of important industries for national defense, the requisite industries (for national defense) should be pushed ahead to the continent as far as possible according to the principle of right work in the right place with Japan and Manchuria as a single sphere and in consideration of their necessity in our national defense, and, furthermore, observing the farsighted future policy of our Empire, we should pick out the most important resources, should ingeniously take the initiative in economic exploitation of North China, and should make efforts to secure its natural resources."

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This Document contains also a schedule citing a general goal for promotion of important industries in Manchuria, as well as in Japan, and expressing specifically the intention to supply certain deficiencies from Manchuria. However, The Outline of the Five-Year Plan for Production of War Materials, (IPS Document 9002 A), shows this planned integration to be vital to war expansion. I will read the following excerpts from that Document:

- a) Page 3 (all)
- b) Section III, pages 5 to 7 inclusive

111. It was also the intent of the War Ministry to fully utilize the resources of Chosen (Korea). Integration had already been effected during the four decades in which Chosen had been completely dominated by Japan. Financially, Chosen was controlled by Japan through control of investments as well as through the operation of the Bank of Chosen which was an official bank of issue of Japanese currency and the single effective instrument by which fiscal policies of the Japanese Government were carried out in that territory. So strong was the hold of Japan over the economic structure of Chosen that approximately 97% of all corporations (Kaisha) doing business in Chosen were controlled by Japanese. When one adds to the picture the fact that the Government of Chosen was completely Japanese one can understand the completeness of the integration of the two economies under the control of Japan.

112. Since the turn of the Century the economic structure of Taiwan (Formosa) has also been dominated by Japan.

Taiwan is predominantly an agricultural territory normally exporting sugar, rice, and sweet potatoes. What few industries it had were developed predominantly by the Japanese. Like Chosen, dominance was exercised through control of investments and control of the Government. The Bank of Taiwan, likewise an official bank of issue of Japan, carried out the fiscal policies of the Japanese Government in that territory. Similarly, the Commercial and Industrial Bank of Taiwan (operating as it did in purely commercial circles), was at the disposition of Japanese policy makers. Formosa, like the mandated islands in the South Pacific, was, in all factual respects, a colony of Japan.

113. The direct integration of the economy of China into that of Japan did not commence until a later date. The integration, however, was planned by the War Ministry to carry out the military objectives as previously cited in paragraph 110. of this statement. Further evidence of planning to use the facilities of China for war purposes is disclosed in the Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Industries, dated 10 June 1937, (Part II of IPS Document 1522), which states on page 1, sub-paragraph B, the following:

"This plan is for the establishment of a plan for the expansion of the productive power of the major industries of our country based on the policy for the establishment of a comprehensive plan for Japan, Manchoukuo and China through close contact and coordination among Japan, Manchoukuo and China."

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114. During the first year of hostilities in China, 1937-1938, the Japanese Army used the bank notes of the Bank of Chosen in North China and the bank notes of the Bank of Japan in Central China, together with scrip denominated in yen, so-called "military" yen. However, the practice of using currency in occupied territories which was valid for circulation in Japan had disturbing effects upon Japan's monetary structure. As a consequence, the practice of using official Bank of Japan notes backed by specie was definitely abandoned in the autumn of 1938, at which time the Federal Reserve Bank of China was formed and the yen bloc extended through the use of the facilities of this bank. The Japanese in North China made use of the new local currencies issued by the Japanese dominated Federal Reserve Bank of China, whereas in Central and South China the "military" yen became the sole legal tender of the Japanese Army.

115. A word might be said of the Federal Reserve Bank of China. The Federal Reserve Bank of China was incorporated on February 11, 1938, and commenced actual business on the 10th of March of the same year. The main purpose of the bank was to stabilize currency and control the money market, and foreign exchange; and for such purposes it was authorized by the government to manufacture and issue currency. The Governor and Vice Governor of the bank were appointed by the government, and its directing personnel were mainly Japanese. The currency issued by the Federal Reserve Bank of China was linked to the Japanese yen,

and so paved the way towards Japanese investments in North China and greatly facilitated the exploitation of this territory. The original credit of the bank was established by a credit of 100,000,000 yen from the Japanese Banking Syndicate. This Japanese government dominated bank, becoming as it did the "Bank of Banks" in North China, through careful extensions of preferred credits and the manipulations of its funds and foreign exchange, carried out the Japanese Government's policies in financial fields within the area dominated by the Bank.

116. The "military" yen used by the Japanese Army in China did not represent an obligation of the Government, nor that of any Japanese bank. These notes lacked the coverage of specie or foreign exchange reserve, and were not convertible into the free yen accounts with Japanese banks, nor were they redeemable in specie or foreign exchange. Japanese military notes of this character were simply worthless fiat money, and the use of these notes was one means by which the Government forced China to support the Japanese armies and the commercial undertakings of the armies at no cost whatever to Japan. The "military" yen were put into circulation in payment for goods and services by the army of occupation and withdrawal was made through fiscal levy and the sale of goods and services by the army of occupation.

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117. The wholesale use of military currency in denominations other than yen was anticipated by Japan in planning for the conquest of the southern regions. As early as January 1941 responsible officials with the Government directed the preparation and printing of military currencies in foreign denominations. A series of secret communications by the Government departments during the year 1941 is contained in IPS Document 9022. This document discloses that the Government caused stocks of military currency to be printed in denominations of guilders, pesos and dollars and that it was intended to use this currency to defray war expenditures of the Japanese forces in Dutch East India, British Malay, British Borneo and Thailand and the Philippines. I will read IPS Document No. 9022.

118. The procedure for handling this special military currency is disclosed in IPS Document 9016, dated 1 November 1941. This document was addressed from Minister of Finance Okinobu KAYA to the Bank of Japan. I will read Document 9016. That currency in foreign denominations of guilders, pesos, and dollars was actually printed in execution of the plans and orders disclosed in IPS Document 9022 and IPS Document 9016 is disclosed in IPS Document 9016 B. This latter document is a ledger of the Bank of Japan showing entries of amounts of currencies by kind, together with the dates on which such currencies were received by the Bank of Japan for handling, pursuant to the instructions contained in IPS Document 9016. I will read IPS Document 9016 B for the purpose of showing

that as early as May 1941 currencies in foreign denominations for anticipated use in southern regions was in existence.

119. As further proof of the existence of military notes in denominations of guilders, pesos, and dollars which the Japanese intended to use to defray war expenses in southern regions I have secured from the Ministry of Finance the actual engraver's plates manufactured before December 7, 1941, pursuant to the orders contained in IFS Document 2022, together with some of the actual notes printed from these plates before December 7, 1941.

120. In the integration of territories outside the limits of Japan proper, the device of the "National Policy" companies was used extensively by the Japanese Government. National policy companies were created by special legislation of the Japanese Government to create business enterprises abroad when it was difficult or inexpedient to induce private enterprises and private capital to undertake a particular kind of business, or where it was desired to develop a foreign territory. A list of the more important national policy companies which the Japanese Government initially established abroad, together with a short description of their activities, follows:

- (1) The South Manchurian Railway Company was a Japanese corporation formed for the purpose of developing railway and communication, water transport service, motorcar transport service, mining, electrical industry, warehousing, management of land, and such other business as would be appointed by the Government. The South Manchurian Railway, together with its subsidiary companies, was the largest single economic unit in Manchuria. The company was formed in 1906 and continued a gradual development of railways and other services as a business enterprise until after 1931 when it became the active Government exploitation

agency in Manchuria. Its capital was increased many times. Until prior to the outbreak of the war in December 1941 its capital was 600,000,000 yen.

- (2) The Manchuria Industry Development Corporation was established pursuant to an economic agreement between the Manchoukuo Government and the Japanese Government. While, ostensibly this was a Manchoukuo Government National Policy Company, in reality, because of the economic understanding between Manchoukuo and Japan, it was truly a national policy company of Japan. It was organized pursuant to a Manchoukuo Imperial Ordinance No.460, promulgated December 20, 1937. The purpose of this company was to expedite the development and establishment of heavy industries and to control those industries at the direction of the Manchurian Government. These industries included iron and steel, light metals, automobile manufacture, airplane manufacture, the coal industry, together with mining of all kinds and such other industries as the Government from time to time authorized it to promote.
- (3) The Oriental Development Company was formed in accordance with the provisions of Law No. 63, of 1908, for the purpose of supplying funds necessary for the development of undertakings in the promotion of the Japanese interests in countries outside Japan proper. The original capital of the company was 10,000,000 yen but by 1941 it had increased to 50,000,000 yen.
- (4) The Taiwan Electric Power Company was formed August 1, 1919, for the purpose of developing the electric power industry in Formosa. In 1940 its capitalization was 77,400,000 yen. The company concerned itself, under the direction of the Japanese Government, with the distribution of electric power.
- (5) The South Seas Development Company was formed November 27, 1936, for the purpose of developing the South Sea Islands with particular relation to fishing and other natural resources. Its original capitalization was 20,000,000 yen.
- (6) The Taiwan Development Company was formed pursuant to Law of February 3, 1936, for the purpose of the development of industrial enterprises in Formosa. Its original capitalization was 30,000,000 yen.
- (7) The Korea Forestry Development Company was formed September 1, 1937, for the purpose of developing the Lumber Industries in Korea. Its original capitalization was 20,000,000 yen.

- (8) The Japan Gold Production Enterprise Company was formed pursuant to law, September 16, 1938, for the purpose of developing the production of gold in the dominated areas as well as Japan proper. Its original capitalization was 50,000,000 yen.
- (9) The North China Development Company was formed pursuant to Law 81, April 30, 1938, for the purpose of promoting the economic development of North China and for controlling and co-ordinating the economics of North China. The original capitalization of the company was 350,000,000 yen.
- (10) The Central China Development Company was formed pursuant to the law, November 10, 1938, to accomplish the same purposes as the North China Development Company by operating within the Central China area. The capitalization of the Central China Development Company was 100,000,000 yen.
- (11) The Korea Magnesite Development Company was formed pursuant to law, June 19, 1939, with a capitalization of 15,000,000 yen, for the purpose of developing magnesite mining and the control and sale thereof.
- (12) The Korea Rice Exchange Company was formed November 25, 1939, with a capital of 5,000,000 yen for the purpose of controlling the rice exchange in Korea. Deficiency in Japan's rice production is in great part made up from Korea's excess.
- (13) The Korea Mining Development Company was formed pursuant to law August 26, 1940, with an authorized capitalization of 10,000,000 yen. The purpose of this company was to control the mining and sale of all minerals except magnesite which was already controlled by the Korea Magnesite Development Company. This Company was the effective instrument by which the Government more rigidly controlled the output of mines in Korea.
- (14) The Karafuto Development Company was formed pursuant to law, July 10, 1941, with an authorized capital of 50,000,000 yen. The purpose of this company was to develop and control mining, forestry, and the agricultural development of that territory.
- (15) The Imperial Petroleum Company was formed September 1, 1941, with an authorized capital of 100,000,000 yen. The purpose of this company was to survey and develop oil fields, both in Japan proper and in the dominated territories and to control the purchase and the sale of all petroleum and oil products. This company was the effective Government instrument for the complete control of petroleum.

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While this list shows the capital investment in these foreign operating national policy companies up to 1941, it is to be understood that after that time enormous further capital outlays were made in many instances to enlarge the scope of the activities of these companies and tighten the control of the economies of the areas wherein they operated. This further expansion was made particularly in Manchuria and China. As the war progressed new national policy companies were formed to further integrate the economies of the dominated and occupied areas.

FOREIGN EXCHANGE AND FOREIGN TRADE

121. Japan is dependant on foreign commerce for her economic livelihood and position as a modern industrial nation. Her natural resources are extremely limited and she must import from abroad about one-third of the total raw and other materials required for manufacturing. All of the raw cotton, wool and crude rubber used in Japanese industries must be imported, while the major portion of the requirements of iron and non-ferrous metals (notably, copper, lead, zinc, nickel, antimony and tin) coking coal, petroleum, phosphorous ores and industrial salt must also be imported. One of Japan's great problems has always been to sell sufficient materials and manufactured goods to acquire the necessary exchange to pay for these imports. Thus, foreign trade and foreign exchange transactions played a vital role in the complete industrial development and economic life of the country.

122. The exports of Japan's industries have seldom been sufficient to pay for her imports except in 1909, 1917 to 1918 and 1935. Before 1931 the excess of imports was paid for by foreign borrowings and by depleting the

gold and foreign balances acquired by Japan during World War I. Since the Manchurian Incident, however, Japan has not been able to borrow abroad. Even the usual short term credits were curtailed, and it is common knowledge that Japanese merchants had to make substantial cash payments at the time of placing orders abroad. As a consequence of expansion in the heavy industries fields, together with capital investments in Manchoukuo and China, at a time when Japan's balance of trade was unfavorable, enormous outlays of foreign exchange were required. To make the necessary payments for increased purchases of machinery and equipment, petroleum, metals, metal products and various other commodities not indigenous of Japan, but necessary to industrial expansion for war materials production, the problem of acquisition of sufficient foreign exchange was magnified many times. Japan attempted to solve the import financing problem in the following ways:

- (a) By consolidating, conserving and controlling all of the available foreign exchange and restricting imports to supply materials according to plan.
- (b) By stimulating exports to foreign currency countries.
- (c) By increasing Empire gold production.

123. The first decisive measure to conserve foreign exchange was taken in the summer of 1932 by enactment of the Capital Flight Prevention Law, a few months after Japan went off the gold standard for the third time. Pursuant to this Law bank reports on foreign exchange

transactions were made compulsory to enforce the embargo on gold exports. The gold embargo of 1931, unfortunately for Japan, did not prevent gold exports, nor did the Capital Flight Prevention Law. As a result of the allowed gold exports in 1932 which amounted to 112,000,000 yen, the Foreign Exchange Control Law of March 1933, (Law No. 28), was enacted. It became the basis for many subsequent regulations in regard to the handling and disposition of foreign exchange.

124. The Foreign Exchange Control Law, with subsequent amendments, authorized the Government to concentrate all foreign exchange transactions in the Bank of Japan and other specified banks and required the compulsory sale to the Government of exchange securities and currencies. It further permitted the Government to prohibit, or limit, the acquisition and disposal of securities and debentures in foreign countries, the issue and acquisitions of letters of credit, the granting of credits to persons abroad, the imports and exports of securities and the export of articles not covered by permitted purchases of foreign exchange. The powers granted by this law were not completely invoked until January 8, 1937, when, although prior to the Lukouchiao Incident, the import excess was so great that Japan began actually to ship gold in payment for imports. More effective action had to be taken to prevent the non-essential spending of foreign exchange assets. On January 8, 1937, exchange settlements in payment of imports amounting to more than 30,000 yen per month were made subject to license. This

limit of exception from license was progressively lowered by new enforcement ordinances to transactions of 1,000 yen per month on July 7, 1937 (Ordinances No 23) and to 100 yen per month on December 11, 1937 (Ordinance No. 55). Further restrictions on credits for Japanese travelers abroad and remittances to other countries were imposed.

125. The Army, realizing that the success or failure of production plans depended in great measure upon the careful balancing of imports and exports with consideration to ability to pay, drafted its policy regarding foreign trade control. This policy is set out in the "Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Interests", dated 10 June 1937, (Part II of IPS Document 1522). I will read the following excerpts from Section II of that Document as shown on pages 5 to 9 inclusive.

126. The outbreak of the China Incident precipitated the Foreign Trade Adjustment Law of August 1937 which empowered the Government to prohibit or restrict imports of certain commodities after consultation with the Foreign Trade Council for the purpose of adjusting the balance of payments with any particular country and ensuring the supply of important commodities. Very shortly thereafter, in September 1937, a new and more effective law was passed which governed the import and export of commodities completely. This new law was called the Law for the Temporary Control of Imports and Exports. Its purpose was to set up an import licensing system to ensure that

import transactions were directed towards the securing of necessary war-use commodities. The law also gave wide powers over the distribution and consumption of commodities and any articles made from such commodities. Under regulations, as revised and extended, four classes of commodities were defined in proportion to the urgency of the demand for them. Class A contained the leading raw materials of peace time industry, such as cotton, wool, jute, wood pulp, wood, rubber, hides and leather. Imports of these commodities were subject to severe curtailment from normal levels according to the policy expressed by the Planning Board. Class B listed nearly 300 articles of which imports were generally entirely prohibited. These consisted, for the most part, of goods which were felt to be not necessary to the Japanese people or goods which could be produced in Japan. Chiefly, they were toilet articles, light chemicals, textiles and luxuries, such as beer, watches, electric fans, woollen fabrics, boots and shoes, etc. Class C embraced those articles considered essential for military purposes, the exports of which were absolutely prohibited. This category included cotton waste, gold, certain non-ferrous ores, iron pipes, special steel, antimony, automobiles and parts, internal combustion engines and other materials of a like nature. Class D, which was added in 1938, placed supervision over a specified number of imports to be given preferential positions for licensing. Commodities in this category included platinum, copper, lead, tin, zinc, antimony, brass and mercury.

127. The machinery used by the Japanese Government to control foreign trade under the laws above cited was the cartel system also adopted for the control of manufacturing enterprises. On August 13, 1937, (Law No. 74) there was passed The Law of the Foreign Trade Associations. This law provided that there should be established import and export associations for the handling of foreign trade. The members of the associations were those engaged in handling the same kinds of goods or dealing in particular markets. The principal goods to be handled by each association for the particular market was named by the competent Minister. Only one association was allowed in each field. Therefore, this law actually formed all foreign traders into organizations which carried out the policies of the Government through the operation of Government imposed restrictions, inasmuch as the associations were charged with implementing the Government's policy. Under the same law the various import associations and export associations were formed into two federations, one for import and one for export. A third federation was a federation of the two previously named. This was known as the Control Federation of Foreign Trade Associations.

128. The results of these programs, that is to say, the operation of the Foreign Exchange Control Law controlling the monies involved in transactions and the Law for the Temporary Control of Imports-Exports controlling commodities, were to a degree effective. Nevertheless, it was soon apparent that by limiting imports to war potential goods Japan was unable to acquire sufficient

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foreign exchange to continue operations over a long period of time. It should be borne in mind that while imports of non-essential materials, i.e., non-war materials, were curtailed, Japan, nevertheless, depended upon the processing of many of these materials for her export trade by which to acquire new and necessary foreign exchange. This presented a real dilemma. Japan had to stimulate foreign exports and make drastic curtailments.

129. So serious did the problem of acquisition of foreign exchange become to the acquisition of essential materials that, when the export trade fell off, the Cabinet called for a severe curtailment of plans as well as severe restrictions on civilian economy. A notification from the Chief Secretary of the Cabinet to the War Minister, Seishiro ITAGAKI, dated 23 June 1938, (IPS Document 9018 A) discloses this fact together with decisions of the Cabinet concerning this matter. I will read that Document. A second communication between the same officials on 23 June 1938, (IPS Document 9017 A) outlines the type of revision deemed necessary by the Cabinet to achieve the national plan. I will read that Document.

130. The Japanese Government attempted to solve this import-export dilemma by resorting to the mechanism of linking purchases of foreign exchange for the imports of certain raw materials to sales realized by exporting the finished product made from the same materials. The so-called "link" system worked in this fashion. In order

to import cotton, for example, it was necessary to give assurance that an equivalent amount of cotton textiles would be exported within a specified period. There were, of course, many kinds of combinations, or links, of commodities. The import of tallow was linked to the export of soap; bristles and ebony to brushes; wood pulp to staple fibres; Manila hemp to Japanese style paper; carpet wool and hair to rugs, etc. The basic principle involved was to keep exports moving to produce exchange without cutting into foreign exchange available and allocated for import of war materials. These sorts of operations demanded limits and curtailment of industries not involved in such transactions as well as a complete control of the whole. The "link" system first received general recognition in 1938 when it was applied to approximately 30% of Japan's total exports. In addition to the "link" system, other efforts of a more orthodox character were made to stimulate foreign trade such as, advertising, market surveys, commissions, etc.

131. The annual foreign trade reports between 1935 and 1941 show ever increasing export and ever decreasing import trade between Japan and the areas comprised in Korea, Formosa, Kwantung, Manchuria and China. The following table shows the amounts and percentage of this trade shift:

EXPORTS OF JAPAN
(1000 Yen - Unit)

Year	Total Exports to all Countries (including Korea & Formosa)	Exports to Korea, Formosa, Kwantung, Manchuria & China	
		Value	% of Total
1935	3,220,530.3	1,302,099.3	40.4
1936	3,514,814.7	1,487,656.5	42.3
1937	4,122,035.7	1,747,808.3	42.4
1938	3,900,993.7	2,381,295.0	61.1
1939	5,113,202.3	3,288,485.5	64.3
1940	4,961,194.8 ^(A)	3,175,221.7 ^(A)	63.9 ^(A)
1941	2,633,997.7 ^(B)	1,644,557.2 ^(B)	62.4 ^(B)

IMPORTS OF JAPAN
(1000 Yen - Unit)

Year	Total Imports from all Countries (in- cluding Korea & Formosa)	Imports from Korea, Formosa, Kwantung, Manchuria & China	
		Value	% of Total
1935	3,248,753.7	1,130,272.4	34.8
1936	3,611,612.1	1,248,109.0	34.6
1937	4,737,062.0	1,394,751.0	27.3
1938	3,757,253.1	1,664,563.1	44.3
1939	4,118,185.6	1,891,231.4	45.9
1940	4,155,723.9 ^(A)	1,465,730.0 ^(A)	35.3 ^(A)
1941	2,885,475.3 ^(B)	850,274.1 ^(B)	29.4 ^(B)

(A) Does not include Formosa. Average Formosa Trade was:

Exports ¥ 300,000,000 annually. Imports ¥ 400,000,000 annually.

(B) Does not include Formosa and Korea. Average Korean Trade

Exports ¥ 1,100,000,000. Imports ¥ 700,000,000.

Because of this shift in foreign trade balances, exports to yen bloc areas were eliminated from the "link" system. This was done because such trade produced no excess foreign exchange to support purchases from requiring payment in foreign exchange. To effect restriction of exports to the yen bloc areas which might otherwise be used to acquire foreign exchange from other countries, Ordinance No. 53 of September 20, 1939, was passed. This ordinance provided that certain designated commodities were not to be exported to yen bloc areas without approval of the export associations. The commodities included drugs, paper, glass, paint, toys, and similar items. It is to be noted that these items were not produced from that class of raw materials constituting major Japanese imports. These were items, which when sold on the open market, produced the maximum of exchange.

GOLD PRODUCTION

132. The excess of imports over exports during the early months of 1937 was 126% greater than the excess for the first six months of 1936. In order to pay for these imports the Bank of Japan, in March, 1937, began shipping gold in payment of goods. Some indications of the important role played by gold in the financing of Japan's imports may be gauged by the fact that her gold sales to the United States Treasury alone from 1937 to June, 1941, totalled \$580,000,000, or 2,160,000,000 yen, at prevailing market rates. The necessity for stimulating the production of gold became at once apparent. In the Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Industries (Part II of IPS Document 1522), dated 10 June 1937, the Government further anticipated unfavorable balances of trade. At Section II, page 6, of the aforementioned Resume the table entitled "Estimates of International Receipts and Payments, Japan and Manchuria considered as one Unit ***" shows that for the years 1937 to 1941 it was estimated there would be an excess of imports amounting to 1,530,000,000 yen. This estimate called for action on the part of the Government to do something about the gold supply in relation to managements of foreign trade. On August 10, 1937, a number of measures pertaining to gold were passed by the Diet. The most important of these measures were The Gold Reserve Re-valuation Law, The Gold Fund Special Account Law and The Gold Production Law.

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133. The Gold Reserve Revaluation Law confirmed the suspension of the obligation of the Bank of Japan to convert bank notes into gold coins. It also concentrated the gold reserves of the Bank of Chosen and the Bank of Taiwan with the Bank of Japan, and re-valued the total gold stock. Reduction in the gold content of the yen increased the face value of the total gold stock from 472,000,000 yen to 1,219,000,000 yen. The Gold Fund Special Account Law established a special gold account using the gross profit of 747,000,000 yen accruing to the Government by the above mentioned revaluation processes as its basis. The purpose of this gold fund special account was to provide funds with which to purchase gold and silver at home and abroad, and from which to make disbursements of gold for special purposes.

134. The Gold Production Law of August 10, 1937, had as its purpose the stimulation of gold mining and the production of gold. By its provisions the government was empowered to order improvements and expansions of mines and the mechanisms for handling gold, to control prices, to restrict consumption and to grant subsidies. Under the Law those persons engaging in the mining of gold were exempted from the payment of import duties on machinery and other necessary equipments to increase production. It also provided for the establishment of a national policy company called the Japan Gold Production Enterprise Company. This Company was formed on September 16, 1938, for the purpose of developing the production of gold within Japan and the Empire. One half of the original capitalization of 50 million yen was provided

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by the government. The Company was to be exempted from income, profits and local taxes for ten years. The government guaranteed 4% dividend on the Company's shares for a period of five years, and it was further provided that the Company was to be compensated for any losses on loans made to private mining companies up to the limit of 11 million yen. This national policy company took over from the Oriental Development Company and the Industrial Bank of Korea, the operation and control of about 100 medium and small size gold mines in Korea alone for exploitation purposes.

135. So important was gold, for foreign exchange, that the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part II of IPS Document 1522) scheduled expansion in the production of gold from 51,669 kilograms in 1938 to 106,534 kilograms in 1941. Gold production was given all possible encouragement by the government. The Ministry of Commerce and Industry alone paid the following bounties:

1937	302,840 Yen
1938	2,401,105 Yen
1939	2,488,110 Yen
1940	4,541,510 Yen
1941	4,342,500 Yen

This was in addition to other bounties provided for mineral prospecting generally. The gold purchase premium system was adopted in November, 1939, whereby mine operators would receive a premium of one yen per gram for any increase over the mine's previous output and a premium of two yen per gram for any increase over a quota established by the Ministry of Finance.

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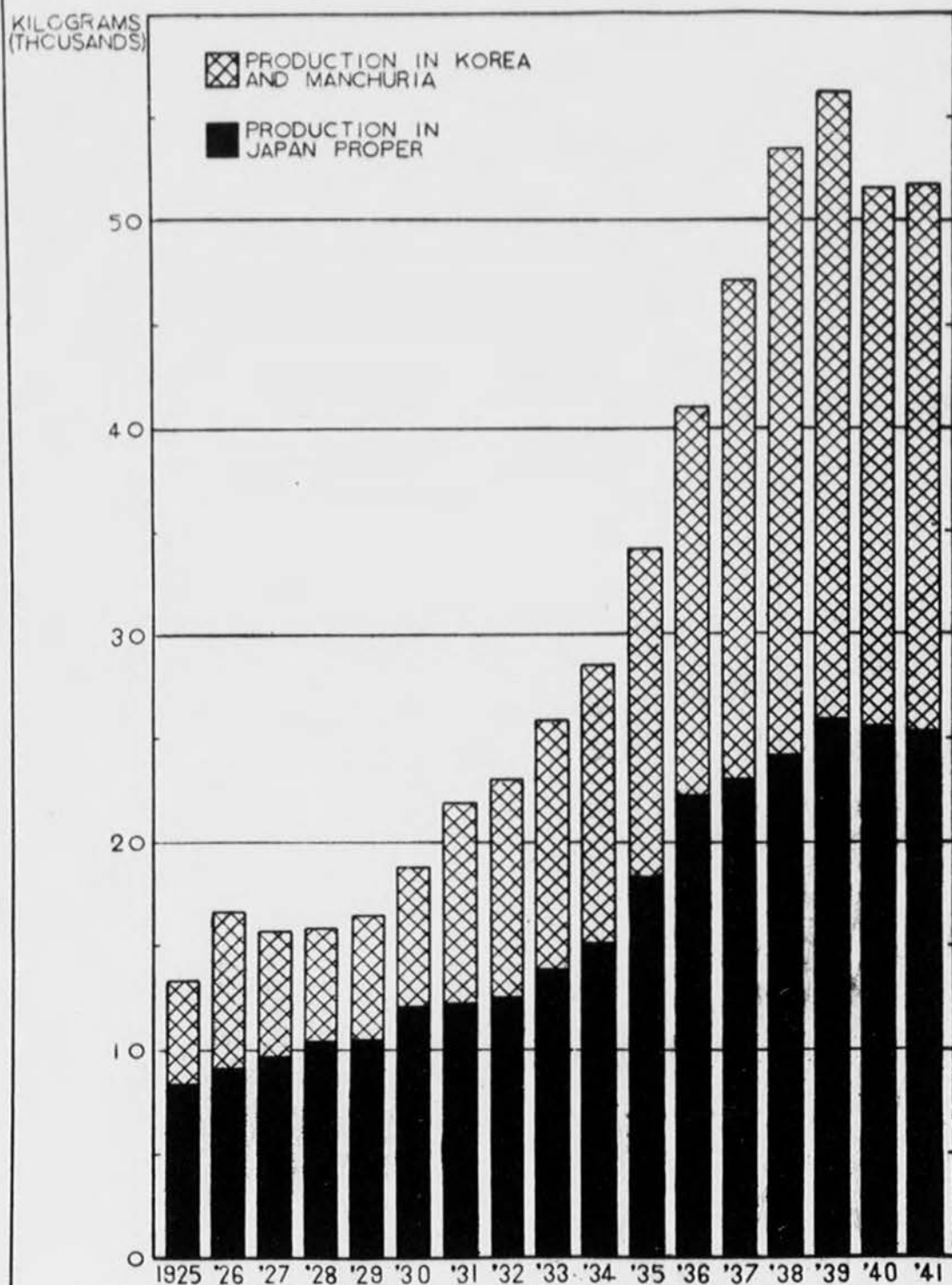
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136. Every effort was made by Japan to acquire all the gold bullion, ornaments, jewelry, etc., held by individuals and private institutions. An amendment to the Gold Production Law, passed in March, 1939, authorized the compulsory purchase of all gold by the government. This, of course, had the effect of throwing all gold and gold articles in Japan into the hands of the government where it could be used for the very essential foreign exchange. The following table marked "Gold Production in Japanese Empire" shows the gold production in the Empire Japan from the years 1925 to 1941. The chart marked "Gold Production in Japanese Empire" graphically illustrates the production table:

GOLD PRODUCTION IN JAPANESE EMPIRE, 1925 - 1941



SOURCE : (1) MINISTRY OF COMMERCE AND INDUSTRY
(2) MINISTRY OF FINANCE

106A

GOLD PRODUCTION IN JAPANESE EMPIRE, 1925 - 1941

(Kilo grams)

Year	Production Home Islands	Empire Including Home Islands
1925	8,463	13,397
1926	9,099	16,740
1927	9,606	15,705
1928	10,390	15,845
1929	10,422	16,436
1930	12,067	18,740
1931	12,275	21,859
1932	12,497	23,014
1933	13,728	25,888
1934	15,146	28,575
1935	18,321	34,188
1936	22,234	41,017
1937	23,010	47,164
1938	24,067	53,493
1939	25,926	56,384
1940	25,583	51,625
1941	25,328	51,810

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GOVERNMENT INTERNAL FINANCIAL POLICY - DIRECT
AND INDIRECT FINANCING

137. Adequate financing is as essential to a program of industrial development as the securing of necessary raw materials. The necessity for financing the expansion of industry to achieve national self-sufficiency in the production of war materials was not overlooked in the programme. I will read the following excerpt from the "Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Industries", dated 10 June 1937, (Part II of IPS Document 1522):

(a) Page 3, commencing Paragraph A to
Paragraph D, inclusive page 5.

(b) Pages 24-26 inclusive Section IX.

138. An attempt was made to estimate the amount of funds necessary to construct the facilities to carry out the expansion program of important industries. This estimate is set forth in detail in Table No. 3, appended to the aforementioned Resume. In brief, the Table classifies the industries to be expanded in Japan and Manchuria, and shows the amount of funds estimated to be required in each area for the classified industries. The industries included are, of course, the same as those which appear in the preceding sections of the Document. It is anticipated in the Program that it would be necessary to expend 6,092,000,000 yen in Japan and 2,444,000,000 yen in Manchuria. It being apparent that it was necessary

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for the Government to participate directly in furnishing funds for the financing of industrial expansion, the War Office estimated a schedule of over-all direct and indirect subsidies for industries. This schedule is shown as Table No. 4 (I) appended to Part II of IPS Document 1522. I will read that table together with Table No. 4 (II), likewise appended to the Document which is an estimate of subsidies for collateral enterprises to show the extent of planned government subsidies for war production purposes.

139. The Government gave effect to this subsidy program by providing for payment of subsidies in certain cases as a matter of law hereinbefore cited. While nearly every Ministry of the Japanese Government granted subsidies for one purpose or another, the records of subsidies paid are incomplete. Fairly accurate records, however, were obtained from the Ministry of Commerce and Industry covering the five years immediately preceding the war which are as follows:

1937	10,607,706 Yen
1938	29,726,825 Yen
1939	51,536,684 Yen
1940	92,049,585 Yen
1941	207,353,194 Yen

140. One of the favored means by which the Japanese Government directly stimulated business in accordance with national policy, when it was difficult or inexpedient to induce investment by private enterprise, was through the medium of national policy companies. National policy companies can be divided into two types: (1) Those for the purpose of effecting the exploitation or

development of foreign territories; (2) Those established for the purpose of entering into business directly to develop a specific industry or industries generally. The first type policy company was described and listed hereinbefore at Paragraph 120, pages 90, 91, 92 and 93 of this statement. The latter type of national policy company, established for the purpose of developing specific industries, is listed and described as follows:

- (1) The Japan Iron Manufacturing Company was formed under the provisions of Law No. 47, April 6, 1933, for the purpose of developing the Japanese iron manufacturing industries. The production of iron had been very small and uneconomic, and it was thought that one strong company for the development of iron and steel manufacturing enterprises at the direction of the Government would greatly enhance the productive capacity of Japan. Since its formation the capitalization has been increased four times from 350,000,000 to 800,000,000 Yen.
- (2) The Japan Transportation Company was formed pursuant to Law, October 1, 1937, for the purpose of developing the transportation facilities in Japan. It has an original capitalization of 35,000,000 Yen.
- (3) The Imperial Fuel Enterprises Company was formed pursuant to law, January 19, 1938, for the purpose of developing artificial petroleum. Original capitalization was 100,000,000 Yen.
- (4) The Japan Electric Power Company was formed April 1, 1939 for the purpose of effecting a unity in the production and distribution of electric power within Japan proper. This company was given monopolistic powers by law under the control of the Government. The capitalization of the Japan Electric Power Company, however, was provided by private sources.
- (5) The Japan Rice Company was formed July 25, 1939, for the purpose of effecting a monopoly in the purchase and sale of rice. The Company had a capitalization of 30,000,000 Yen and was one of the means used to control the price of foodstuffs, since rice constitutes the major item of the Japanese diet.

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- (6) The Imperial Mines Development Company was formed pursuant to law, August 10, 1939, for the purpose of developing the mining industry of Japan and the sale of the products therefrom. Its original capitalization was 30,000,000 Yen, but this was increased later to 90,000,000 Yen. One of the prime functions of this Company was to assist private enterprise in developing the natural resources of the country in accordance with the national policy.
- (7) The Japan Aeronautics Company was formed pursuant to law, August 31, 1939. It had control of all airplane travel both national and international.
- (8) The Imperial Petroleum Company was formed September 1, 1941, with an authorized capital of 100,000,000 Yen. The purpose of this Company was to survey and develop oil fields, both in Japan proper and in the dominated territories, and to control the purchase and the sale of all petroleum and oil products. This Company was the effective Government instrument for the complete control of petroleum.
- (9) The Industrial Equipment Corporation was organized pursuant to Law No. 92 of November 25, 1941, for the purpose of equipping wartime industry as determined by the Government. All of the capitalization of 400,000,000 Yen was furnished by the Government. This was the effective means by which the Government, in its last stages of preparation for war, utilized all machinery and plant capacities in Japan in accordance with national policy.

The distinctive feature of all national policy companies is that (a) they were organized pursuant to a special law for a stated government purpose; (b) in all cases they are managed and directed by the government; (c) in all cases the companies have very broad powers of action within their respective fields of endeavor; (d) the Government usually furnished 50% of the capital; (e) the Government waives its right to dividends when profits are short; (f) the Government guarantees payment of debentures and interest on loans; (g) in addition to special

operating privileges the companies receive subsidies, grants in aid, freedom from tax restrictions, and other operating benefits. It is to be noted that of the 29 national policy companies cited and described in this statement 22 of them were formed since 1933 for the purpose of industrial production or control. Of these 22 companies 13 of them were formed after the China Incident and were specifically set up for war production.

141. In addition to the money originally advanced to the national policy companies in the form of capital the Government guaranteed bonds as a further financial assistance. The following table indicates the ever increasing amounts of this kind of obligation undertaken by the Japanese Government:

1936	3,000,000 Yen
1937	5,500,000 Yen
1938	211,000,000 Yen
1939	575,240,000 Yen
1940	1,762,090,000 Yen
1941	3,317,530,000 Yen
1942	5,695,060,000 Yen

The guarantees represented by the above table do not include other types of guarantees such as the principal and interest on special debentures and the guarantee of dividends on stock, facts which considerably enlarge the scope of the Government's financial obligations. The emphasis which the Government placed upon financing the national policy companies by debenture issues is shown in the following

table, compiled by the Industrial Bank of Japan, which indicates the ratio to total debenture issues by year of national policy companies and ordinary companies:

	1937	1938	1939	1940	1941
Special Company Debentures	27.1	50.2	66.9	77.5	72.8
Ordinary Company Debentures	71.9	49.8	33.1	22.5	27.2

142. It is notable that as the war preparations became more intense the amount of unsecured company debentures increased. The following table, compiled by the Industrial Bank of Japan, shows the amount by year of total company debentures issued with security and total company debentures issued without security:

	1937	1938	1939	1940	1941
Company Debentures issued with Security (including Ordinary and National Policy Companies)	49.2	45.1	38.7	27.0	30.2
Company Debentures issued without Security (including Ordinary and National Policy Companies)	50.8	54.9	61.3	73.0	69.8

However, by far the greater portion of unsecured company debentures were issues of the national policy companies as shown in the following breakdown:

	1937	1938	1939	1940	1941
Percent of Non-Secured Company Debentures to total Debenture Issues.	50.8	54.9	61.3	73.0	69.8
National Policy Company Non-Secured Debentures	28.1	48.8	60.5	72.5	69.6
Ordinary Company Non-Secured Debentures	22.7	6.1	0.8	0.5	0.2

143. The three tables cited above which show the debenture issues between 1937 and 1941 demonstrate:

- (a) That from 1937 onward by far the greater portion of total debenture issues were by national policy companies.
- (b) That almost all the national policy company debenture issues were without security.
- (c) That by guaranteeing the principal and interest of debentures of national policy companies, as provided by law, the Government became the direct and principal financier for the expanding operations of the national policy companies organized for increasing war production and war production potential.

THE BUDGET FOR WAR AND NAVY

144. A direct showing of financial preparations for war is made in the yearly budget of the Japanese Government for the War and Navy Ministries (IPS Document 9023 A). Ordinarily the budgets of both Ministries are composed of two accounts, the General Account and the Special Account. In 1937, however, a third account was set up called War Expenditure Account. This War Expenditure Account was set up to carry the direct war making expenditures after the China Incident. It is significant that these accounts were never closed but steadily increased in amount between 1937 and 1941 as did the General Accounts. I will read the following excerpts from IPS Document 9023 A:

- a) Page 1 which is the totals of the budgets of the Ministry of War for the years 1931 to 1941.
- b) Page 16 which is the totals of the budgets of the Ministry of Navy for the years 1931 to 1941.

145. Authorization to expend money from the Extraordinary War Expenditures Accounts of both the Army and Navy was made through the power of Imperial sanction but actually was done by the Ministers of War, Navy and Finance. For instance, the document

discloses that Ministers of War ITAGAKI, HATA, and TOJO, together with Minister of Navy, SHIMADA as well as Minister of Finance, KAYA, all authorized expenditures from these accounts. Pages 2, 3, 4, 17, 18 and 19 of IPS Document 9023 A is a complete breakdown, by dates, amounts and authority for expenditures from the Extraordinary War Expenditures Accounts.

146. The following table discloses a clear picture of the total money budgeted for the Ministries of War and Navy in proportion to the total of the annual budgets.

Fiscal Year	Total Budget	Total of War and Navy Budgets
1936	2,317,724,000 Yen	1,075,220,972 Yen
1937	5,520,633,000 Yen	4,057,446,139 Yen
1938	8,083,662,000 Yen	6,097,755,799 Yen
1939	8,952,463,000 Yen	6,417,646,999 Yen
1940	11,033,769,000 Yen	6,766,745,902 Yen
1941	19,253,257,000 Yen	15,446,711,931 Yen

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MONETARY POLICIES

147. During 1932 the yen was allowed to depreciate even more rapidly than the pound sterling in relation to gold and the United States dollar. While it is true that during 1933 and 1934 the dollar itself depreciated vis-a-vis gold, in 1934 the dollar was stabilized in terms of gold and the yen was stabilized in terms of the pound sterling at 1s. 2d. From then until August 1939, the yen remained pegged to the pound sterling.

148. Shortly after the demise of K. TAKAHASHI, Minister of Finance, on February 20, 1936, Japan embarked upon a series of financial programs emphasizing state control of economy for political purposes. This fact has been demonstrated repeatedly in this statement. The Monetary Policies reflect the all-out war expansion program with little consideration for sound government financing. To provide for the enormous budget outlays for war purposes the government steadily increased its issue of National Loan Bonds. The following table shows the amounts of bond issues, together with the amounts purchased and the percentage of purchase of the issue. In many instances the Bank of Japan purchased these government bonds directly and, through its control of banks, forced the banks and other financial institutions to repurchase them:

Fiscal Year	Issues	Boughts	Percentage
1937	2,230,000,000 Yen	1,536,000,000 Yen	68.9%
1938	4,530,000,000 Yen	4,066,000,000 Yen	89.8%
1939	5,516,000,000 Yen	4,746,000,000 Yen	86.0%
1940	6,884,000,000 Yen	5,693,000,000 Yen	82.7%
1941	10,191,000,000 Yen	8,873,000,000 Yen	87.1%

The increased use of the Bank of Japan as an underwriter-distributor of government bonds is disclosed in the following table showing the amount of holdings of government bonds by the Bank of Japan.

1936	487,000,000 Yen
1937	1,094,000,000 Yen
1938	1,635,000,000 Yen
1939	2,207,000,000 Yen
1940	3,633,000,000 Yen
1941	5,409,000,000 Yen

149. The Government twice increased the tax free note issue limit of the Bank of Japan, the Bank of Chosen and the Bank of Taiwan between 1936 and 1941 in order to continue the easy money regime. The following table indicates the increased amount of notes issued by the Banks of Issue between 1936 and 1941:

End of the Year	Bank of Chosen	Bank of Taiwan	Bank of Japan
1936	211,000,000 Yen	79,000,000 Yen	1,865,000,000 Yen
1937	280,000,000 Yen	112,000,000 Yen	2,305,000,000 Yen
1938	322,000,000 Yen	140,000,000 Yen	2,755,000,000 Yen
1939	444,000,000 Yen	171,000,000 Yen	3,679,000,000 Yen
1940	581,000,000 Yen	200,000,000 Yen	4,777,000,000 Yen
1941	742,000,000 Yen	253,000,000 Yen	5,979,000,000 Yen

Despite these increases note circulation kept above the tax free limit, consequently, effective April 1, 1941, there was passed the Law Concerning Extraordinary Exceptions from Application of Convertible Bank Note Law. This Law

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149. The Government twice increased the tax free note issue limit of the Bank of Japan, the Bank of Chosen and the Bank of Taiwan between 1936 and 1941 in order to continue the easy money regime. The following table indicates the increased amount of notes issued by the Banks of Issue between 1936 and 1941:

End of the Year	Bank of Chosen	Bank of Taiwan	Bank of Japan
1936	211,000,000 Yen	79,000,000 Yen	1,865,000,000 Yen
1937	280,000,000 Yen	112,000,000 Yen	2,305,000,000 Yen
1938	322,000,000 Yen	140,000,000 Yen	2,755,000,000 Yen
1939	444,000,000 Yen	171,000,000 Yen	3,679,000,000 Yen
1940	581,000,000 Yen	200,000,000 Yen	4,777,000,000 Yen
1941	742,000,000 Yen	253,000,000 Yen	5,979,000,000 Yen

Despite these increases note circulation kept above the tax free limit, consequently, effective April 1, 1941, there was passed the Law Concerning Extraordinary Exceptions from Application of Convertible Bank Note Law. This Law

The increased use of the Bank of Japan as an underwriter-distributor of government bonds is disclosed in the following table showing the amount of holdings of government bonds by the Bank of Japan.

1936	487,000,000 Yen
1937	1,094,000,000 Yen
1938	1,635,000,000 Yen
1939	2,207,000,000 Yen
1940	3,633,000,000 Yen
1941	5,409,000,000 Yen

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suspended the provisions which governed the monetary reserve of the Bank of Japan, Bank of Chosen and Bank of Taiwan and dissolved the distinction between specie reserve (gold and silver) and fiduciary reserve (commercial paper and government bonds). The Ministry of Finance was authorized to fix the maximum amount of tax free note issues. These provisions, together with other laws, had the effect of giving a completely artificial value to the yen.

150. The "Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Industries" (Part II of IPS Document 1522), provides in its plan for accelerating the increase of fresh savings of money, at page 4, the following program:

- "(a) To open a national movement for practicing economy of consumption and thrift and saving.
- "(b) To lower the minimum limit of postal savings (from 10 sen to 5 sen).
- "(c) To start house-to-house collection system of postal savings (similar to post office insurance)."

To put this plan into action the government set up many National Savings Encouragement campaigns, even providing in 1937 a National Savings Encouragement Bureau, the function of which was in general to promote savings habits by advertising and through posters, movies, and radio propaganda, particularly to attract small savings to Postal Savings Offices. The effectiveness of the savings programs is demonstrated to a degree in the following table which shows the amounts of bank deposits made during the years 1937 to 1941:

End of the Year (April 1930)	BANK DEPOSITS		
	Banks Special Banks	Deposits Ordinary Banks	Savings Banks
1937	1,277,000,000 Yen	12,352,000,000 Yen	2,117,000,000 Yen
1938	1,473,000,000 Yen	15,073,000,000 Yen	5,571,000,000 Yen
1939	1,935,000,000 Yen	19,794,000,000 Yen	3,363,000,000 Yen
1940	2,348,000,000 Yen	24,389,000,000 Yen	4,453,000,000 Yen
1941	2,853,000,000 Yen	29,406,000,000 Yen	5,542,000,000 Yen

In this connection, the Postal Savings Bank offices sold to the public special government bonds in small denominations. These were 3.5 per cent, 7-year Reconstruction Savings Certificates and Capital Savings Certificates with a face value of 100 yen. In May 1940, further steps were taken to absorb surplus savings by the sale of "baby" bonds or "patriotic" bonds. This sort of bond was in denominations of 5 and 10 yen and had a maturity value of 10 years but carried no interest. The appeal to purchase this sort of bond was the offering of prizes after the fashion of a public lottery. The amount of increase of Postal Savings by the impetus of this sort of encouragement is disclosed in the following table of Postal Savings Accounts:

Year Ending March 31	POSTAL SAVINGS	
	Number of Accounts	Amount of Deposit
1934	37,703,287	2,809,191,817 Yen
1935	39,255,550	2,771,015,803 Yen
1936	41,360,343	3,094,985,279 Yen
1937	43,919,099	3,331,015,732 Yen
1938	48,394,680	3,720,816,082 Yen
1939	66,970,295	4,535,010,491 Yen
1940	77,265,192	5,900,012,681 Yen
1941	86,556,723	7,599,080,432 Yen
1942	99,760,577	9,571,935,849 Yen

Accounts for Okinawa are included in figures above.

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151. As a further inducement to public savings, the National Savings Association Law was passed on the 12th of March 1941. It was promulgated by Imperial Ordinance under the provisions of the National General Mobilization Law. The purpose of this Law was to provide for the establishment of organizations known as "Savings Associations". These Associations were established in local communities, in cities, and within other associations and group organizations for the purpose of encouraging the people to deposit thrift accounts. These Associations in turn, bought up national bonds with their assets. Psychologically and practically these organizations were very effective implements for the national policy.

152. Within the Government was a special Bureau known as the Deposit Funds Management Bureau. The purpose of this Bureau, an old-line government agency, was to administer the surplus funds of special government accounts, Postal Savings, the proceeds of the sale of Reconstruction Savings, Savings Certificates, Patriotic Bonds, Special Deposits of Local Government Agencies, Public Bodies, and Private Institutions. This Bureau had complete control over allocation and use of the assets deposited with it. One might describe it as a "trust bank" under the control and direction of the government. The investment of funds, however, was limited to the following:

- (a) Government bonds, corporate debentures guaranteed by the government and loans to government accounts;
- (b) Foreign government bonds and yen debentures issued by foreign corporations under foreign government guarantees;
- (c) Debentures issued by and loans to public bodies and the financing of emergency needs necessitated by national disaster;

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- (d) Debentures issued by corporations organized under special laws;
- (e) Loans to banks organized under special laws;
- (f) Deposits with the Bank of Japan to be held abroad for purposes designated by the government.

By the middle of 1941, 64 per cent of the assets of the Deposit Funds Management Bureau were in government bonds, 14 per cent in bank and corporate debentures, while 11.5 per cent was invested in prefectural and municipal bonds and 8 per cent in special banks and companies. The percentage of government bonds held would seem to be inordinately large when one considers the origin of the funds and the purpose of the Bureau. Again, the fact is clearly demonstrated that the Government vigorously pushed the sale of national bonds as a method of acquiring liquid funds.

153. In connection with the adjustment of capital investment to national policy, a program is set out in the "Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Industries", (Part II of IPS Document 1522), at page 4 as follows:

- "(3) Measures for adjusting investment of capital.
 - " (a) To suppress fresh investment in non-urgent and non-essential enterprises;
 - "(b) To have the Bank of Japan supervise and guide the employment of capital by the various banking organs;
 - "(c) To restrain double investment."

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The execution of this policy is reflected in the Temporary Fund Adjustment Law passed on September 10, 1937. This Law had as its purpose the adjustment of use of funds within the country with a view to equi-balancing the demand and supply of commodities and funds.

154. The Temporary Fund Adjustment Law centralized complete authority over the nation's financial structure in the Bank of Japan. Under this law the following operations of all banks were strictly regulated:

- (1) Control of bank credit for long term industrial financing;
- (2) Capital increases and bond issues by companies engaged in important industries, and
- (3) All financial operations and programs by banking institutions and industrial enterprises.

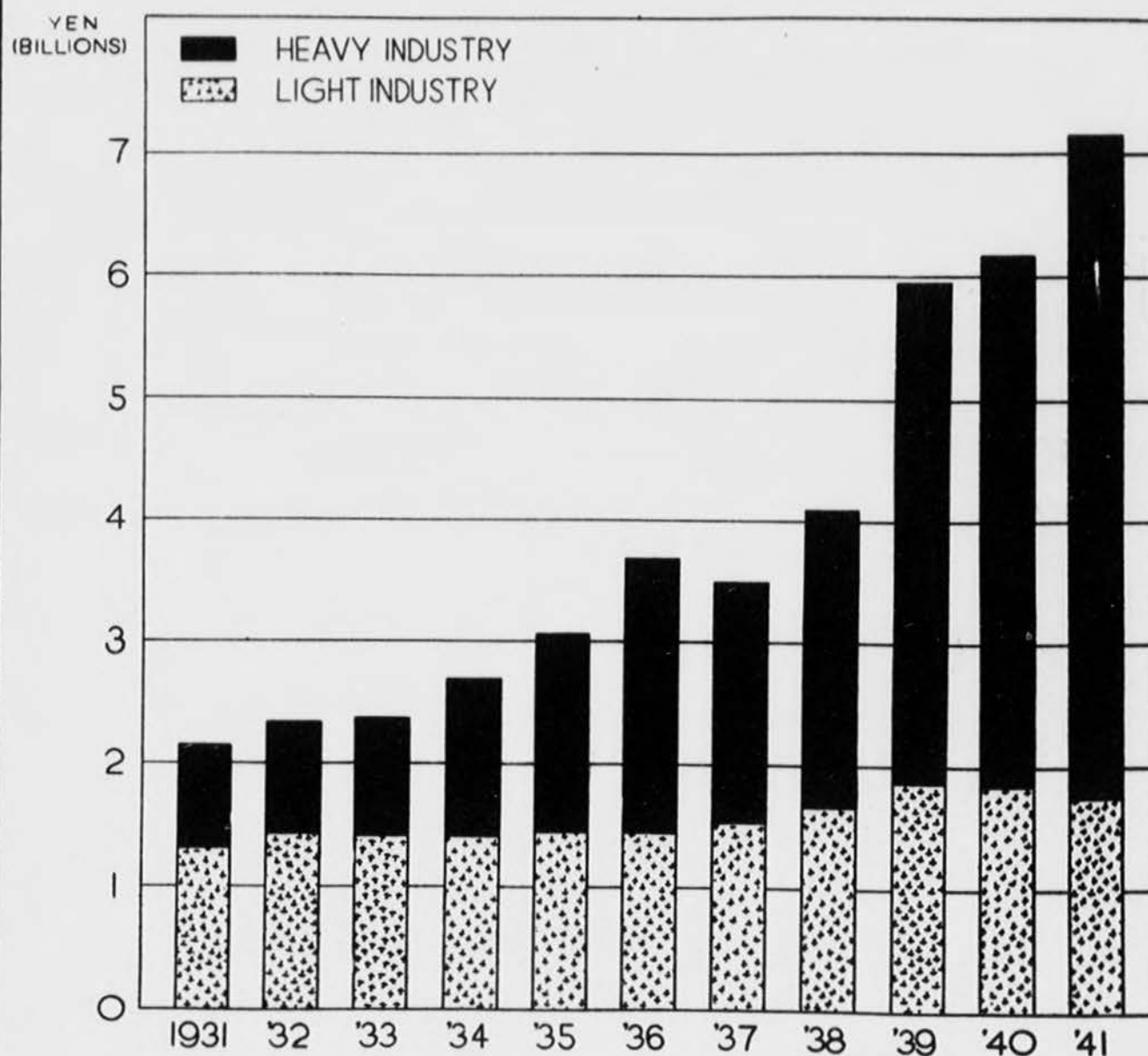
The application of the law was entrusted to the Minister of Finance who acted upon consultation with a Temporary Fund Adjustment Commission consisting of officers of the Ministry of Finance, the Bank of Japan, and the Industrial Bank of Japan. When financing expansion of industrial facilities, financial institutions were required to obtain permission from the Ministry of Finance. The principle according to which such permission was given was based on the division of industries into three groups, according to the degree of their participation in such activities as armament production, export trade, and strategic industrial expansion. Class A included industries directly engaged in these lines and was further divided into two groups, A (a) and A (b), according to the importance of the industries.

Loans to A (a) industries up to 3,000,000 yen and loans to A (b) industries up to 1,000,000 yen could be made upon consultation with the Bank of Japan, and permission for loans in excess of these amounts were freely granted by the Minister of Finance. The industries in Class B, to which loans could be made only under special circumstances, were divided into three groups, B (a), B (b) and B (c), again according to the importance of the industries. Loans under B (a), up to 300,000 yen could be granted upon consultation with the Bank of Japan, and loans in excess of this amount were freely permitted; authorization for loans to B (b) in excess of 30,000 yen was granted only under special circumstances; and loans to B (c) in excess of 30,000 yen were generally prohibited. Class C was made up of industries with excess capacity or of those industries producing unessential goods. Loans to these industries in excess of 30,000 yen were forbidden. This law had the effect of rigidly controlling expansion of industries by the Government in accordance with the national policy and directing the flow of such capital into preferred industries. The following table marked "Gross Value Added by Manufacturing in Heavy and Light Industries 1931-1941" very plainly shows the direction of the controlled flow of capital. This table is graphically illustrated in the appended chart marked "Expansion of Industry in Japan Proper, 1931-1941"

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EXPANSION OF INDUSTRY IN JAPAN PROPER, 1931-1941

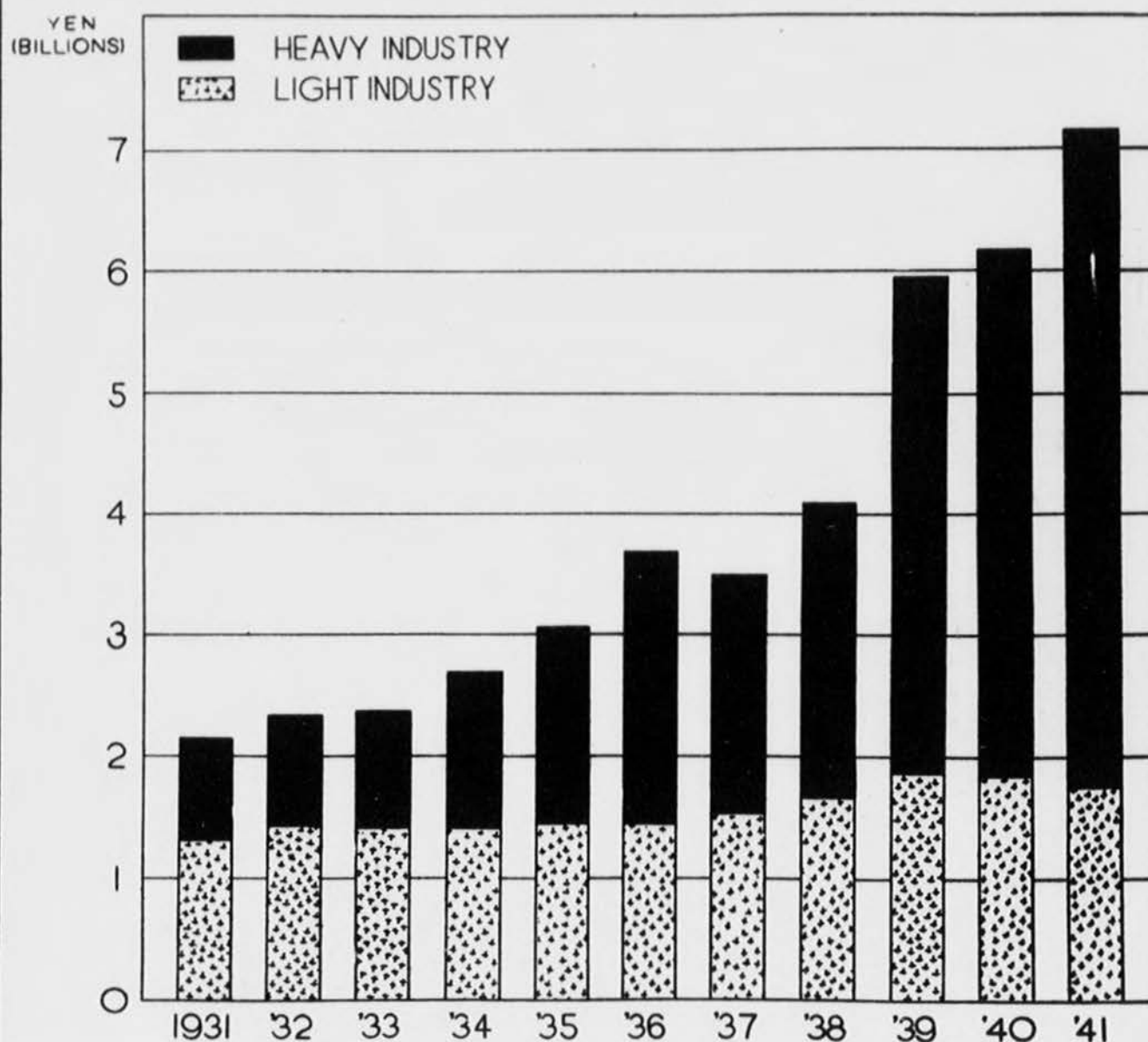
GROSS VALUE ADDED BY MANUFACTURE
1931 PRICES



SOURCE : MINISTRY OF COMMERCE AND INDUSTRY

EXPANSION OF INDUSTRY IN JAPAN PROPER, 1931-1941

GROSS VALUE ADDED BY MANUFACTURE
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SOURCE : MINISTRY OF COMMERCE AND INDUSTRY

TABLE

GROSS VALUE ADDED BY MANUFACTURING
IN HEAVY AND LIGHT INDUSTRIES, 1931 - 1941 ^{1/}^{2/}

	Current Prices			1931 Prices		
	Light In- dustries	Heavy In- dustries	Total	Light In- dustries	Heavy In- dustries	Total
1931	1,315	832	2,147	1,315	832	2,147
1932	1,505	1,082	2,587	1,433	906	2,339
1933	1,706	1,476	3,182	1,420	952	2,372
1934	1,746	1,922	3,668	1,415	1,280	2,695
1935	1,801	2,334	4,135	1,447	1,611	3,058
1936	1,878	3,235	5,113	1,457	2,220	3,677
1937	2,236	4,488	6,724	1,536	1,956	3,492
1938	2,832	6,173	9,005	1,680	2,415	4,095
1939	3,502	9,658	13,160	1,877	4,083	5,960
1940	3,842	10,880	14,722	1,858	4,312	6,170
1941	4,031	13,954	17,985	1,774	5,372	7,146

Source: Ministry of Commerce and Industry: Factory Statistics 1931 to 1941 and Supplementary Reports to Factory Statistics 1936 to 1941.

^{1/} Gross value added equals value of output minus cost of materials and fuel in private factories employing five or more workers. Heavy industry includes the metal refining and manufactures of metal products, the machinery and tools (including motor vehicles and steel shipbuilding) or the basic war industries and the chemical industry. Light industry includes the textile manufacturing, ceramics, food products, wood and lumber products, printing and publishing and other miscellaneous manufacturing industries. Production of aircraft and all production in government factories such as arsenals are not included. In addition some production data in the categories included in Factory Statistics or in the confidential Supplementary Reports were also not reported in the official statistics.

^{2/} Value in 1931 prices estimated by dividing value in current prices by the wholesale prices indexes of the relevant commodity groups published by the Oriental Economist.

155. Further domination of banking and financial facilities was conferred upon the Minister of Finance by Imperial Ordinance No. 681 of October 19, 1940, entitled "Ordinance Concerning Operation of Funds of Banks and Other Financial Institutions". This Ordinance provided that all financial institutions were required to adjust their investment policies in accordance with the directives of the Minister of Finance. This measure completely destroyed the last vestige of autonomous action of banking institutions. When it was deemed necessary for the smooth supply of funds for expansion of productivity the Minister of Finance had the power to, and did, order banks to advance funds, subscribe to, underwrite, or buy negotiable securities and guarantee obligations. This Ordinance further provided that any losses incurred by financial institutions as a result of directives of the Finance Minister should be compensated by the Government.

156. Promulgated at the same time was Imperial Ordinance No. 680, entitled "Ordinance for Control of Corporate Accounts". This Ordinance was made pursuant to the National General Mobilization Law and charged commercial concerns with the responsibility for "attainment of the national object". To accomplish the national object commercial concerns were compelled to utilize and conserve funds as directed by the Government, to pay expenses and depreciate assets reasonably, to withhold excessive payment of salaries and to accumulate funds. Furthermore, the distribution of profits above a fixed percentage required permission of the Minister of Finance, as well as the payment of bonuses, etc. The amount of money which

commercial agencies could spend for social expenses, entertainment, advertising, and contributions, other than to national defense groups on war relief funds, were likewise subject to permission of the Minister of Finance. Companies were controlled as to the limit of acquiring negotiable paper, patent, mining or fishing rights and the lending or borrowing of funds. To enforce this ordinance the Government was empowered to inspect the books of any corporation at any time.

157. The effect of these banking and corporate fund controls was to completely integrate the financial resources and activities of banks, financial institutions and corporations into the national policy. That national policy was the expansion of specific industries necessary to develop war materials and war material potential.

158. While the immediate objective of industrial expansion and the control of finances by the Japanese Government was the building up of war production and war production potential by the end of the year 1941, there was an even more far-reaching program which concerned the use and purpose of this production. It was the domination of East Asia. This purpose was clearly outlined in IPS Document 1611 A which is entitled the Outline for the Economic Construction of Japan, Manchoukuo and China, as decided at Cabinet meeting on 3 October, 1940. I will read that document which is self-explanatory.

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